PRESS RELEASE
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TSX – PHX
Calgary, Alberta

PHX Energy Announces Its Operating and Financial Results for the Second Quarter of 2019

Financial Results

For the three-month period ended June 30, 2019, the Corporation realized adjusted EBITDA of $11 million the highest second quarter adjusted EBITDA (see "Non-GAAP Measures") achieved in PHX Energy's history. This level of adjusted EBITDA is 10 percent greater than the adjusted EBITDA of $10 million in the respective 2018-quarter. Consolidated revenue for the three-month period ended June 30, 2019 was $83 million, a 20 percent increase over the $69 million generated in the second quarter of 2018 and the second highest consolidated revenue achieved for a second quarter in the Corporation's history, with the second quarter of 2014 being the highest. This level of revenue was achieved mainly as a result of the continued strength in PHX Energy's US segment, despite weaker activity in the Canadian industry.

For the three-month period ended June 30, 2019, PHX Energy capitalized on its strong momentum in the US attaining the highest quarterly revenue for the US division since the fourth quarter of 2014. US revenue increased by 30 percent to $67.1 million from $51.6 million in the corresponding 2018-quarter. The Corporation's drilling activity in the US improved by 11 percent in the 2019-quarter, growing to 3,903 operating days in comparison to 3,523 days in the 2018-quarter. This growth is in contrast to the US industry's activity which declined 5 percent from 1,039 average rigs running per day in the second quarter of 2018 to 989 rigs in the 2019-quarter (Source: Baker Hughes). The Corporation increased activity in the US by expanding the capacity of its high performance technology fleets, specifically Velocity Real Time-Time Systems ("Velocity"), PowerDrive Orbit Rotary Steerable Systems ("RSS"), and Atlas High Performance ("Atlas") Motors.

In contrast, the Canadian industry's outlook continues to be negatively affected by uncertainty around new takeaway capacity, which has resulted in prolonged industry challenges in 2019. The Canadian market's activity fell 25 percent quarter-over-quarter with an average of 79 active rigs operating per day in the second quarter of 2019 (2018 – 105 rigs) (Source: Baker Hughes). For the three-month period ended June 30, 2019, the Canadian segment's revenue was $10.7 million as compared to $12.7 million in the 2018-quarter.

As at June 30, 2019, the Corporation had loans and borrowings of $16.3 million as well as operating facility borrowings of $6.6 million. These debt items less cash and cash equivalents of $7.4 million resulted in net debt of $15.5 million (December 31, 2018 - $21.5 million). As at June 30, 2019, the Corporation's working capital was $56.9 million.

Capital Spending

For the six-month period ended June 30, 2019, the Corporation spent $20.4 million in capital expenditures. Capital expenditures were primarily directed towards Velocity Systems and Atlas Motors, and were $12.6 million higher than the $7.8 million spent in the first half of 2018. The Corporation funded capital spending in the 2019-year through net cash flows from operations and its working capital and debt facilities.

As at June 30, 2019, the Corporation had $6.3 million of outstanding capital commitments, which is comprised of $4.5 million for Velocity Systems and $1.8 million for collars, performance drilling motors and other machine and equipment. Delivery of these purchases is expected to occur by the end of 2019.

On April 8, 2019, the Corporation announced an increase to its capital expenditure program from $15 million to $25 million. In the second quarter of 2019, PHX Energy's Board of Directors (the "Board") approved an increase to the 2019 capital expenditure program that resulted in the budget being set at $30 million as compared to the $25 million previously announced. In the 2019-year, the Corporation expects to spend $21 million growing the Corporation's fleet of drilling equipment and $9 million to maintain the current fleet of drilling and other equipment. The Corporation anticipates that capital expenditures for the 2019-year will be allocated as follows: $15 million towards performance drilling motors primarily relating to Atlas Motors, $12 million on MWD systems, primarily relating to Velocity, and $3 million relating to machinery and equipment, and collars.

Normal Course Issuer Bid

During the third quarter of 2018, the Toronto Stock Exchange ("TSX") approved the renewal of PHX Energy's normal course issuer bid (the "NCIB") to purchase for cancellation, from time-to-time, up to a maximum of 2,915,311 common shares, representing 5 percent of the outstanding common shares at the time the NCIB was renewed. The NCIB commenced on August 8, 2018 and will terminate on August 7, 2019. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the NCIB, 2,595,300 common shares have been purchased and cancelled by the Corporation as at July 31, 2019, of which 357,500 common shares were purchased and cancelled in the second half of 2018. 1,625,000 common shares were purchased and cancelled in the first half of the 2019 year, and 612,800 common shares were purchased and cancelled subsequent to June 30, 2019.

PHX Energy continues to use the NCIB as an additional tool to enhance total long-term shareholder returns in conjunction with management's disciplined capital allocation strategy.

(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,		
	2019	2018	% Change	**2019**	2018	% Change
Operating Results	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**82,984**	69,009	20	**175,104**	139,768	25
Net loss	**(2,020)**	(84)	n.m.	**(3,087)**	(4,335)	(29)
Loss per share – diluted	**(0.04)**	-	n.m.	**(0.05)**	(0.07)	(29)
Adjusted EBITDA [1]	**10,995**	10,013	10	**22,426**	16,781	34
Adjusted EBITDA per share – diluted [1]	**0.19**	0.17	12	**0.38**	0.29	31
Adjusted EBITDA as a percentage of revenue [1]	**13%**	15%		**13%**	12%	
Cash Flow						
Cash flows from operating activities	**21,244**	8,909	138	**30,944**	9,844	214
Funds from operations [1]	**9,785**	7,158	37	**19,884**	12,914	54
Funds from operations per share – diluted[1]	**0.17**	0.12	42	**0.34**	0.22	55
Capital expenditures	**9,090**	4,698	93	**20,397**	7,765	163
Financial Position (unaudited)				**Jun 30, '19**	Dec 31, '18	
Working capital				**56,871**	60,316	(6)
Long-term debt				**16,309**	11,821	38
Shareholders' equity				**149,815**	168,414	(11)
Common shares outstanding				**56,383,720**	57,963,720	(3)

n.m. – not meaningful

[1] Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to non-GAAP measures section that follows the Outlook section of this document.

Non-GAAP Measures

PHX Energy uses throughout this document certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP"). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA per share, debt to covenant EBITDA, funds from operations, funds from operations per share 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, such measures may not be comparable. Please refer to the "Non-GAAP Measures" section following the Outlook section of this document 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, and the projected capital expenditures budget and how this budget will be allocated and funded.

The above are stated under the headings: “Capital Spending”, and “Cash Requirements for Capital Expenditures”. 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) 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,		
	2019	2018	% Change	**2019**	2018	% Change
Revenue	**82,984**	69,009	20	**175,104**	139,768	25

For the three-month period ended June 30, 2019, the Corporation generated consolidated revenue of $83 million as compared to $69 million in the 2018-quarter, an increase of 20 percent primarily driven by higher revenue per day in PHX Energy's US segment. The average consolidated revenue per day, excluding the motor rental division in the US and the Stream division, in the 2019-quarter rose by 14 percent to $14,181 relative to $12,447 in the corresponding 2018-quarter. The higher revenue per day resulted from the greater volume of premiums and surcharges generated by high performance technologies and the strengthening of the US dollar relative to the 2018-quarter. Consolidated operating days increased 2 percent from 5,443 days in the 2018-quarter to 5,567 days in the 2019-quarter. Strong activity in the US operations was offset by weaker conditions in Canada, causing consolidated drilling activity for the Corporation to be relatively flat. For the three-month period ended June 30, 2019, US revenues represented 81 percent of consolidated revenue (2018 – 75 percent).

During the second quarter, the Western Texas Intermediate ("WTI") crude oil price was 12 percent lower than in the 2018-quarter averaging USD $60/bbl (2018-quarter – USD $68/bbl) and the Western Canadian Select ("WCS") oil prices also showed a 5 percent increase averaging CAD $66/bbl (2018-quarter – CAD $63/bbl). Both the US and Canadian industry's activity slowed quarter-over-quarter, however, the 25 percent decline in the Canadian rig count was far more severe than the 5 percent decrease in the US. There still remains a stark contrast between the two industry's rig count with an average of 989 rigs operating per day in the US and an average of 79 rigs operating per day in Canada. Throughout North America the vast majority of wells continued to be horizontal and directional representing 97 percent of all wells drilled in Canada and 95 percent of the average number of rigs operating per day in the US (Sources: Daily Oil Bulletin and Baker Hughes).

For the six-month period ended June 30, 2019, the Corporation realized consolidated revenue of $175.1 million, a 25 percent increase, compared to the $139.8 million in the same 2018-period. For the 2019-period, the average consolidated revenue per day, excluding the motor rental division in the US and the Stream division, was $13,214 as compared to $11,192 in the 2018-period, an increase of 18 percent. In the six-month period ended June 30, 2019 there were 12,592 operating days recorded rising 3 percent relative to 12,212 days in the corresponding 2018-period. Similar to the 2019 quarterly results, the improvement in revenue for the six-month period ended June 30, 2019 was a result of high performance technology offerings and the strengthening of the US dollar in the 2019-period relative to 2018.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Direct costs	**72,261**	62,389	16	**151,051**	128,318	18
Gross profit as a percentage of revenue	**13%**	10%		**14%**	8%	
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,118**	9,801	3	**20,284**	20,107	1
Depreciation & amortization right-of-use asset (included in direct costs)	**878**	-	n.m.	**1,746**	-	n.m.
Gross profit as percentage of revenue excluding depreciation & amortization	**26%**	24%		**26%**	23%	

n.m. – not meaningful

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment and right-of-use assets. Depreciation on right-of-use assets relate to the impact of adopting IFRS 16 Leases as at January 1, 2019, which required capitalizing the Corporation's office, shop and vehicle leases. For the three and six-month periods ended June 30, 2019, direct costs rose to $72.3 million and $151.1 million, respectively, from $62.4 million and $128.3 million in the corresponding 2018-periods. In both 2019-periods increased direct costs can be attributed to higher overall labour costs and a greater number of equipment repair expenses associated with increased activity in the US.

For both the three and six-month periods ended June 30, 2019, gross profit as a percent of revenue, excluding depreciation and amortization, was 26 percent, an increase compared to 24 percent and 23 percent in the respective 2018-periods. Improved profitability is mainly due to higher revenue per day in the US and Canadian segments.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Selling, general & administrative ("SG&A") costs	**11,394**	9,012	26	**24,596**	17,782	38
Cash-settled share-based payments (included in SG&A costs)	**1,095**	1,105	(1)	**4,030**	1,151	n.m.
Equity-settled share-based payments (included in SG&A costs)	**215**	399	(46)	**399**	859	(54)
Onerous contracts lease payment (included in SG&A costs)	**-**	(20)	n.m.	**-**	(148)	n.m.
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	**12%**	11%		**12%**	11%	

n.m. – not meaningful

For the three-month period ended June 30, 2019, SG&A costs were $11.4 million, an increase of 26 percent compared to the $9 million in respective 2018-quarter. The increases to SG&A was primarily due to higher personnel-related costs. For the six-month period ended June 30, 2019, SG&A costs were $24.6 million relative to the $17.8 million recognized in the 2018-period, a 38 percent increase. Higher SG&A costs for the six-month period ended June 30, 2019 relate to higher personnel costs and cash-settled share-based payments in the period.

Cash-settled share-based payments relate to the Corporation's Retention Award Plan and are measured at fair value. In both the second quarter of 2018 and 2019 cash-settled share-based payments totaled $1.1 million. For the six-month period ended June 30, 2019, cash settled share-based payments increased to $4 million as compared to $1.2 million in the 2018-period, mostly due to fluctuations in the Corporation's share price in the 2019 and 2018- periods.

Equity-settled share-based payments relate to the amortization of the fair values of issued options by the Corporation using the Black-Scholes model. For the three and six-month periods ended June 30, 2019, equity-settled share-based payments were $0.2 million and $0.4 million, respectively, as compared to the corresponding $0.4 million and $0.9 million in the respective 2018-periods. Lower equity-settled share-based payments is a result of previously granted options that fully vested in the 2018-year.

Due to adoption of IFRS 16 Leases as of January 1, 2019, onerous contracts lease payments are no longer recorded.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Research & development expense	**880**	799	10	**1,780**	1,670	7

Research and development ("R&D") expenditures for the three and six-month periods ended June 30, 2019 were $0.9 million (2018 - $0.8 million) and $1.8 million (2018 - $1.7 million), respectively. R&D costs primarily relate to personnel costs. In order to expand services PHX Energy continues to focus efforts on developing new technologies, improving reliability of equipment, and decreasing costs to operations.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Finance expense	**400**	325	23	**784**	665	18
Finance expense lease liability	**629**	-	n.m.	**1,275**	-	n.m.

n.m. – not meaningful

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, 2019, finance charges rose to $0.4 million (2018 - $0.3 million) and $0.8 million (2018 - $0.7 million), respectively. Higher finance expenses in the above-mentioned periods is primarily due to higher long-term loans outstanding resulting from larger capital expenditures in the 2019-periods as compared to 2018-periods.

Finance expense lease liability relates to interest expenses incurred on lease liabilities, as a result of the adoption of IFRS 16 Leases in 2019.

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2019	2018	**2019**	2018
Net gain on disposition of drilling equipment	**(1,596)**	(3,073)	**(2,876)**	(3,851)
Foreign exchange losses (gains)	**246**	(88)	**512**	(217)
Provision for (Recovery of) bad debts	**280**	-	**326**	(8)
Other income	**(1,070)**	(3,161)	**(2,038)**	(4,076)

Net gain on 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 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, 2019, the Corporation incurred a $1.6 million and $2.9 million gain on dispositions, respectively, which is lower compared to the $3.1 million and $3.9 million gain on dispositions realized in the respective 2018-periods. In the second quarter of 2019, there were fewer occurrences of downhole equipment losses and a higher number of asset retirements compared to the 2018-quarter.

Foreign exchange losses (gains) relate to unrealized and realized exchange losses in the period. For the three and six-month periods ended June 30, 2019, the Corporation recognized $0.2 million and $0.5 million in losses, respectively, relative to $0.1 million and $0.2 million gains in the corresponding 2018-periods. Losses in the 2019-periods primarily relate to settlement of US-denominated payables in the international segment and the revaluation of Canadian dollar denominated intercompany payables in the US.

Provision for bad debts for the three and six-month periods ended June 30, 2019 primarily relate to bad debt provisions for a few customers in the US division.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2019	2018	**2019**	2018
Provision for (Recovery of) income taxes	**510**	(271)	**744**	(257)
Effective tax rates	**n.m.**	76%	**n.m.**	6%

n.m. – not meaningful

Provision for income taxes for the three and six-month periods ended June 30, 2019, were $0.5 million and $0.7 million, respectively, as compared to recovery of income taxes of $0.3 million in both the comparable 2018-periods. Deferred taxes in the 2019-periods was impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdictions, which were recognized in the corresponding 2018-periods.

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,		
	2019	2018	% Change	**2019**	2018	% Change
Revenue	**10,664**	12,687	(16)	**35,528**	40,662	(13)
Reportable segment loss before tax	**(2,208)**	(4,811)	(54)	**(955)**	(3,300)	(71)

In Canada, the second quarter is spring break-up period and typically activity levels are lower as compared to the other quarters of the year. For the three and six-month periods ended June 30, 2019, PHX Energy's Canadian revenues were $10.7 million and $35.5 million, respectively, in comparison to revenues of $12.7 million and $40.7 million in the same 2018-periods. Even though revenue per day increased for the three and six-month periods ended June 30, 2019 to $8,860 (2018 - $8,684) and $8,642 (2018 - $8,115), respectively, revenue declined mainly due to lower drilling activity in the Canadian division.

For the three-month period ended June 30, 2019, operating days declined 21 percent to 1,097 days, compared to 1,390 days in the relative 2018-quarter. The decline in the Canadian segment's activity is in line with slower industry activity. The industry's horizontal and directional drilling activity contracted 20 percent as measured by drilling days shrinking from 9,180 days in the 2018-quarter to 7,356 days in the 2019-quarter (Source: Daily Oil Bulletin).

During the second quarter of 2019, oil drilling, as measured by drilling days, represented approximately 39 percent of PHX Energy's Canadian activity and the Corporation remained active in the Montney, Wilrich, Charlie Lake, Duvernay, Cardium, and Notekiwin areas.

For the six-month period ended June 30, 2019, operating days declined 20 percent to 3,834 days, compared to 4,772 days in the same 2018-period. The Canadian industry activity declined sharper than PHX Energy's activity, dropping 31 percent to 21,884 horizontal and directional drilling days reported in the first half of 2019 as compared to 31,683 horizontal and directional drilling days in 2018 (Sources: Daily Oil Bulletin).

In the Canadian division, despite the decline in activity, profitability improved for the three and six-month periods ended June 30, 2019. Better profitability is mainly attributed to lower depreciation expense and overall costs in the 2019-periods as more drilling and other equipment was moved to the US division. Higher revenue per day also had a positive impact to improved profitability in the 2019-periods.

Stream Services

Included in the Canadian segment's revenues is the Stream division, which realized revenues in the three and six-month periods ending June 30, 2019 of $0.9 million and $2.4 million, respectively, as compared to $0.6 million and $1.9 million realized in the corresponding 2018-periods. The improvement in Stream's revenue is primarily driven by higher operating days, and in the three and six-month periods ended June 30, 2019 operating days increased to 1,644 days (2018 – 822 days) and 4,569 days (2018 – 2,741 days), respectively. This is partially offset by lower revenue per day due to higher share of lower rate services being provided in 2019. For the three and six-month period ended June 30, 2019, Stream's revenue per day was $575 and $525, respectively, comparatively revenue per day in the 2018-periods was $750 and $708.

As a result of higher operating days and disciplined cost management, reportable segment losses before tax decreased to $0.4 million and $0.8 million for the three and six-month periods ended June 30, 2019, respectively.

United States

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Revenue	**67,137**	51,647	30	**130,133**	89,714	45
Reportable segment income (loss) before tax	**3,431**	3,887	(12)	**5,827**	(281)	n.m.

n.m. – not meaningful

For the three-month period ended June 30, 2019, the US division achieved the highest quarterly revenue since the fourth quarter of 2014. US revenue in the 2019-quarter improved by 30 percent to $67.1 million as compared to $51.6 million in the corresponding 2018-quarter. Drilling activity increased by 11 percent in the quarter to 3,903 days compared to 3,523 days in the same 2018-quarter. In comparison, the US industry rig count decreased by 4 percent quarter-over-quarter with an average of 939 active horizontal and directional rigs per day in 2019 compared to an average of 981 active horizontal and directional rigs per day in the 2018-quarter (Source: Baker Hughes). PHX Energy's US division continues to outperform the industry as a result of the demand for the Corporation's high performance technologies, increased capacity of the fleet, superior operational performance of personnel and equipment, and targeted marketing efforts. For the three-month period ended June 30, 2019, revenue per day, excluding the Corporation's US motor rental division, rose to CAD $16,409 relative to CAD $14,477 in the corresponding 2018-quarter. The 13 percent increase to revenue per day is attributable to the premiums and surcharges generated by Corporation's high performance technologies and a strengthening of the US dollar. The US-denominated average revenue per day increased 9 percent quarter-over-quarter. Reportable segment income was $3.4 million in the 2019-quarter down 12 percent when compared to the $3.9 million in the 2018-quarter. This decrease was primarily due to a greater volume of drilling and other equipment utilized in the US division which resulted in a $1.7 million increase to the depreciation expense quarter-over-quarter.

Horizontal and directional rigs represented 95 percent of the average number of US rigs running per day (2018 – 94 percent). The Permian basin continued to be the dominate play in the US industry, representing 46 percent of the average operating

rigs per day in the 2019-quarter (2018 quarter – 45 percent); although, the Permian did see a decline in activity that was in line with the overall rate of decline in the US rig count. (Source: Baker Hughes). During the three-month period ended June 30, 2019, the Permian basin represented approximately 77 percent of the wells drilled by the Corporation and all of PHX Energy's US activity was oil well drilling. 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.

US revenue in the period grew to $130.1 million, an increase of 45 percent as compared to the $89.7 million in the same 2018-period. Consistent with the second quarter of 2019, for the six-month period ended June 30, 2019, the Corporation capitalized on high performance technologies attributing to higher operational days and higher revenue per day. Drilling activity for the six-month period ended June 30, 2019, increased 23 percent to 7,652 days as compared to 6,235 days in the same 2018-period. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, was relatively flat with 960 rigs in the first half of 2019 as compared to an average of 942 rigs in the comparable 2018-period (Source: Baker Hughes). Permian activity represented 77 percent of Phoenix USA's activity in the first half of 2019. For the six-month period ended June 30, 2019, revenue per day, excluding the Corporation's motor rental division, was CAD $16,181, which is 14 percent higher than the CAD $14,204 in the 2018-period. For the six-month period ended June 30, 2019, the US-denominated revenue per day increased 9 percent versus the 2018-period. For the six-month period ended June 30, 2019, a reportable segment income of $5.8 million was realized as compared to a reportable segment loss of $0.3 million in the corresponding 2018-period. Higher profitability in the period is mainly attributed to the rise in activity levels and revenue per day.

International

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Revenue	**5,183**	4,675	11	**9,443**	9,392	1
Reportable segment income (loss) before tax	**170**	(30)	n.m.	**65**	(390)	n.m.

n.m. – not meaningful

For the three-month period ended June 30, 2019, the international segment's revenue was $5.2 million, an 11 percent increase over the $4.7 million in the 2018-quarter. The improvement in revenue in the 2019-quarter is mainly attributable to increased drilling activity in Albania. For the six-month period ended June 30, 2019, the international segment's revenue was $9.4 million flat compared to the same 2018-period.

For the three-month period ended June 30, 2019, PHX Energy's Russia division recognized revenue of $3.1 million as compared to $3.8 million in the 2018-quarter. The division experienced lower activity in the region from some of its key clients resulting in lower operating days, 312 days, in the 2019-quarter compared to in the corresponding 2018-quarter, 428 days.

For the three-month period ended June 30, 2019, PHX Energy's Albania division achieved revenue of $2.1 million as compared to $0.8 million in the 2018-quarter. The Albania division was operating on three rigs in the second quarter of 2019 compared

to one operational rig for most of the 2018-quarter with a second rig added in the latter half of that quarter. As a result, operating days increased to 256 days in the 2019-quarter relative to 103 days in the corresponding 2018-quarter.

The international segment recognized reportable segment income for the three and six-month periods ended June 30, 2019 of $0.2 million (2018 - $30,000 loss) and $0.1 million (2018 - $0.4 million loss), respectively. The improved margins in both 2019-periods were mainly due to higher activity levels in Albania.

Investing Activities

For the three-month period ended June 30, 2019, PHX Energy used $7.5 million of net cash in investing activities as compared to $1.4 million of net cash from investing activities in 2018. During the 2019-quarter, PHX Energy received proceeds of $3.5 million (2018 - $5.3 million) primarily from the involuntary disposal of drilling equipment in well bores. In addition, the Corporation spent $9.1 million on capital expenditures in the 2019-quarter compared to $4.7 million in the 2018-quarter. 2019-quarter expenditures were comprised of:

- $5.3 million in downhole performance drilling motors,
- $3 million in MWD systems and spare components; and
- $0.8 million in machining and equipment, RSS, and other assets.

The capital expenditure program undertaken in the period was financed generally from cash flow from operating activities. Of the total capital expenditures in the 2019-quarter $5.5 million was used to grow the Corporation's fleet of drilling equipment and the remaining $3.6 million was used to maintain the current fleet of drilling and other equipment.

The change in non-cash working capital balance of $1.9 million (use of cash) for the three-month period ended June 30, 2019, 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, 2018.

Financing Activities

The Corporation reported cash flows used in financing activities of $10.3 million in the three-month period ended June 30, 2019 as compared to $6.5 million in the 2018-period. In the 2019-quarter the Corporation:

- repurchased $4.7 million of shares under the NCIB,
- made repayments of $4.9 million to its operating and syndicated facilities; and
- made payment of $0.8 million towards it lease liability in line with the newly adopted IFRS 16 Leases standard.

Capital Resources

As of June 30, 2019, the Corporation had $16.3 million drawn on its syndicated facility, $6.6 million drawn on its operating facility, and a cash balance of $7.4 million. As at June 30, 2019, the Corporation had approximately CAD $41.4 million and USD $4 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, 2019, the Corporation was in compliance with all its financial covenants. On July 29, 2019, the Corporation extended the maturity date of the syndicated loan agreement to December 11, 2022. The Corporation also increased the borrowing amounts in the syndicated facility from CAD $48 million to CAD $50 million and in the US operating facility from USD $5 million to USD $15 million.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. In the second quarter of 2019, the Board approved an increase to PHX Energy's 2019 capital expenditure program from $25 million to $30 million. The increase to the capital expenditure program was primarily dedicated to increasing the capacity of the Velocity fleet for activity in early 2020. The remainder of the increase to the capital expenditure program is anticipated to be allocated toward maintenance of the Velocity and performance motor drilling fleets, including Atlas Motors.

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 2019, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Outlook

In the second quarter, PHX Energy's focus on the US market and providing premium technologies continued to propel greater revenue and improved profitability. Adjusted EBITDA was the highest in the Corporation's history for a second quarter driven by strong US activity. Today, the majority of PHX Energy's activity is in the US market, with Phoenix USA representing 75 percent of the revenue in the first half of 2019 which is a strategic shift from five years prior when the US operations represented 54 percent of the revenue in the first half of the 2014-year.

In the US, despite the industry rig count slowing, PHX Energy continued to see growth, with both revenue and operating days increasing over the 2018-quarter. Revenue was the highest quarterly level since the fourth quarter in 2014 and these gains can be attributed to increased capacity in the high performance fleet, superior drilling results and targeted marketing efforts. Deliveries of new equipment are on schedule and are anticipated to arrive in upcoming quarters and into 2020. With this greater

capacity and additional technologies in development, the Corporation is optimistic that this positive momentum will continue in the US.

The second quarter is typically a slower period in Canada due to the spring break-up period, however, the persisting challenges made the second quarter of 2019 the slowest in many years for both the Corporation and the industry. Without any firm resolution for the issues surrounding the industry and the ambiguity around the energy sector, PHX Energy believes the outlook for Canada is at a standstill. GMP First Energy states that, "In the context of history, the activity forecast is putrid with both 2019e and 2020e in the bottom quartile of the last 56 years" (Source: GMP First Energy, Energy Service Update - July 8, 2019). Despite this industry environment, PHX Energy remains committed to delivering solutions, including premium technologies, to its clients that will aide them in their efforts to operate in this ongoing industry recession. Currently the Canadian rig count is approximately 40 percent lower than at this time last year, and this slower activity level is anticipated to impact the Corporation's activity in upcoming quarters.

Activity levels in PHX Energy's international operations remained steady throughout the second quarter. The Corporation focused on the MWD rental business in Russia and Phoenix Albania continued to operate on three rigs. The increased activity level in Albania aided the increased profitability quarter-over-quarter in the international segment.

Technology Update

As the industry demands greater efficiencies, the Corporation remains strategically focused on developing, manufacturing and deploying differentiating technology. Today the Corporation offers Atlas High Performance Motors, the Velocity Real-Time System and PowerDrive Orbit RSS, and is expanding upon this offering by developing enhancements to these products and new technologies.

Downhole technologies, including those in the Corporation's fleet, have become increasingly impactful on the overall efficiency and costs of a drilling project. These technologies drive faster drilling rates and more precise well paths in addition to delivering other advantages. These new capabilities are instrumental for operators to reduce the number of days they need to drill longer and deeper wells which reduces their overall drilling costs as the majority of the services provided on a drilling project are based on day rates. The positive impact that PHX Energy's high performance technologies have on a drilling projects' efficiency is proven by the operational records that are now being frequently achieved. Examples of these records include the fastest rate of drilling in a particular area and the most meters drilled in a set period of time. This performance further solidifies PHX Energy's reputation as a leading technology provider and the Corporation remains strategically focused on furthering its competitive position.

PHX Energy has built a strong financial position, maintaining historically low debt levels and generating free cash flow in the quarter while it continues to invest in technology development. The North American industry remains divided, and PHX Energy will continue to leverage areas of strength, such as the US market and its high performance technologies to strive towards new financial and operational benchmarks.

Michael Buker, President
July 31, 2019

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense and finance expense lease liability, income taxes, depreciation and amortization, impairment losses on goodwill and intangible assets, equity share-based payments, and unrealized foreign exchange gains or losses, does not have a standardized meaning and 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,	
	2019	2018	**2019**	2018
Net loss	**(2,020)**	(84)	**(3,087)**	(4,335)
Add (deduct):				
Depreciation and amortization drilling and other equipment	**10,118**	9,801	**20,284**	20,107
Depreciation and amortization right-of-use asset	**878**	-	**1,746**	-
Provision for (Recovery of) income taxes	**510**	(271)	**744**	(257)
Finance expense	**400**	325	**784**	665
Finance expense lease liability	**629**	-	**1,275**	-
Equity-settled share-based payments	**215**	399	**399**	859
Unrealized foreign exchange (gain) loss	**265**	(157)	**281**	(258)
Adjusted EBITDA as reported	**10,995**	10,013	**22,426**	16,781

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.

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 non-GAAP measure does not have a standardized meaning and is not a financial 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,	
	2019	2018	**2019**	2018
Cash flows from operating activities	**21,244**	8,909	**30,944**	9,844
Add (deduct):				
Changes in non-cash working capital	**(11,436)**	(1,962)	**(11,454)**	3,126
Interest paid	**218**	120	**495**	348
Income taxes paid (received)	**(241)**	91	**(101)**	(404)
Funds from (used in) operations	**9,785**	7,158	**19,884**	12,914

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.

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 and finance expense lease liability, provision for income taxes, depreciation and amortization, equity-settled share-based payments, impairment losses on goodwill and intangible assets, onerous contracts, and IFRS 16 adjustment to restate cash payments to expense, subject to the restrictions provided in the amended credit agreement.

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. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses working capital to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating working capital may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Russia and Albania. PHX Energy also provides electronic drilling recorder ("EDR") technology and services.

PHX Energy's Canadian directional drilling operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centres in Calgary, Alberta. In addition, PHX Energy has a facility in Estevan, Saskatchewan. PHX Energy's US operations, conducted through the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Denver, Colorado; Casper, Wyoming; Midland, Texas; Bellaire, Ohio; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania and 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"), which has an office and operations center in Calgary, Alberta. EDR technology is marketed worldwide, outside Canada, 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.

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Consolidated Statements of Financial Position

(unaudited)

		June 30, 2019		December 31, 2018
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**7,405,638**	$	3,643,418
Trade and other receivables		**80,372,412**		103,987,716
Inventories		**29,864,168**		27,558,003
Prepaid expenses		**3,913,752**		2,428,221
Current tax assets		**80,882**		625,964
Total current assets		**121,636,852**		138,243,322
Non-current assets:				
Drilling and other equipment		**90,229,376**		94,164,880
Right-of-use asset		**32,037,115**		-
Intangible assets		**20,869,496**		22,301,680
Goodwill		**8,876,351**		8,876,351
Deferred tax assets		**710,953**		594,049
Total non-current assets		**152,723,291**		125,936,960
Total assets	**$**	**274,360,143**	$	264,180,282
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Operating facility	**$**	**6,558,245**	$	13,348,562
Lease liability		**2,785,457**		-
Trade and other payables		**55,422,171**		64,578,428
Total current liabilities		**64,765,873**		77,926,990
Non-current liabilities:				
Lease liability		**41,200,714**		-
Loans and borrowings		**16,308,700**		11,821,000
Deferred tax liability		**2,269,585**		2,886,606
Provision for onerous contracts		**-**		1,832,000
Deferred income		**-**		1,300,007
Total non-current liabilities		**59,778,999**		17,839,613
Equity:				
Share capital		**260,545,530**		265,760,391
Contributed surplus		**10,988,213**		10,631,982
Retained earnings		**(136,462,917)**		(125,385,208)
Accumulated other comprehensive income		**14,744,445**		17,406,514
Total equity		**149,815,271**		168,413,679
Total liabilities and equity	**$**	**274,360,143**	$	264,180,282

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2019	2018	**2019**	2018
Revenue	**$ 82,983,644**	$ 69,009,023	**$ 175,104,348**	$ 139,767,577
Direct costs	**72,260,718**	62,388,547	**151,050,936**	128,318,004
Gross profit	**10,722,926**	6,620,476	**24,053,412**	11,449,573
Expenses:				
Selling, general and administrative expenses	**11,394,219**	9,011,684	**24,596,157**	17,782,409
Research and development expenses	**880,017**	799,281	**1,779,603**	1,669,611
Finance expense	**400,025**	325,244	**783,625**	664,971
Finance expense lease liability	**628,522**	-	**1,274,683**	-
Other income	**(1,069,532)**	(3,161,398)	**(2,037,788)**	(4,076,017)
	12,233,251	6,974,811	**26,396,280**	16,040,974
Loss before income taxes	**(1,510,325)**	(354,335)	**(2,342,868)**	(4,591,401)
Provision for (Recovery of) income taxes				
Current	**120,312**	2,071,290	**468,784**	1,926,457
Deferred	**389,463**	(2,341,955)	**275,413**	(2,183,188)
	509,775	(270,665)	**744,197**	(256,731)
Net loss	**(2,020,100)**	(83,670)	**(3,087,065)**	(4,334,670)
Other comprehensive income (loss)				
Foreign currency translation	**(1,803,995)**	649,403	**(2,662,069)**	3,295,370
Total comprehensive income (loss) for the period	**$ (3,824,095)**	$ 565,733	**$ (5,749,134)**	$ (1,039,300)
Loss per share – basic	**$ (0.04)**	$ -	**$ (0.05)**	$ (0.07)
Loss per share – diluted	**$ (0.04)**	$ -	**$ (0.05)**	$ (0.07)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2019	2018	**2019**	2018
Cash flows from operating activities:				
Net loss	**$ (2,020,100)**	$ (83,670)	**$ (3,087,065)**	$ (4,334,670)
Adjustments for:				
Depreciation and amortization	**10,117,493**	9,801,024	**20,284,764**	20,107,270
Depreciation and amortization right-of-use asset	**878,319**	-	**1,745,522**	-
Provision for (Recovery of) income taxes	**509,775**	(270,665)	**744,197**	(256,731)
Unrealized foreign exchange loss (gain)	**264,934**	(157,362)	**281,009**	(258,431)
Gain on disposition of drilling equipment	**(1,596,318)**	(3,072,595)	**(2,876,496)**	(3,851,254)
Equity-settled share-based payments	**215,100**	398,594	**399,057**	858,796
Finance expense	**400,025**	325,244	**783,625**	664,971
Provision for (Recovery of) bad debts	**279,567**	-	**326,138**	(7,888)
Provision for inventory obsolescence	**735,901**	271,846	**1,283,302**	207,108
Provision for onerous contracts	**-**	(20,000)	**-**	(148,000)
Amortization of deferred income	**-**	(33,333)	**-**	(66,666)
Interest paid	**(217,750)**	(120,348)	**(495,288)**	(347,891)
Income taxes received (paid)	**240,811**	(91,368)	**100,871**	404,123
Change in non-cash working capital	**11,436,637**	1,961,562	**11,454,051**	(3,126,281)
Net cash from operating activities	**21,244,394**	8,908,929	**30,943,687**	9,844,456
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**3,510,292**	5,261,241	**6,044,065**	7,968,105
Acquisition of drilling and other equipment	**(9,090,137)**	(4,698,055)	**(20,396,683)**	(7,764,625)
Acquisition of intangible assets	**-**	(2,902)	**-**	(6,598)
Change in non-cash working capital	**(1,958,066)**	807,860	**(3,713,201)**	(1,199,610)
Net cash from (used in) investing activities	**(7,537,911)**	1,368,144	**(18,065,819)**	(1,002,728)
Cash flows from financing activities:				
Proceeds from (Repayment of) operating facility	**(2,196,552)**	(3,453,314)	**(6,790,317)**	628,165
Repurchase of shares under the NCIB	**(4,674,837)**	-	**(5,345,437)**	(237,500)
Proceeds from (Repayment of) loans and borrowings	**(2,700,200)**	(3,000,000)	**4,487,700**	(5,000,000)
Payments of Lease Liability	**(760,281)**	-	**(1,555,344)**	-
Proceeds from issuance of share capital	**-**	-	**87,750**	-
Net cash used in financing activities	**(10,331,870)**	(6,453,314)	**(9,115,648)**	(4,609,335)
Net increase in cash and cash equivalents	**3,374,613**	3,823,759	**3,762,220**	4,232,393
Cash and cash equivalents, beginning of period	**4,031,025**	4,531,173	**3,643,418**	4,122,539
Cash and cash equivalents, end of period	**$ 7,405,638**	$ 8,354,932	**$ 7,405,638**	$ 8,354,932