



**Q2**  
**2015**



**PHX**

ENERGY SERVICES CORP.

## Financial Highlights

Drilling activity in all of the Corporation's operating segments remained slow as weak commodity prices continued through the second quarter of 2015. For the three-month period ended June 30, 2015, the Corporation generated consolidated revenue of \$58.5 million, which is 42 percent lower than the \$100.5 million generated in the 2014-period. Profitability also declined as EBITDA decreased to \$0.4 million in the second quarter of 2015 compared to \$7.8 million in the 2014-quarter and the Corporation realized a net loss of \$8.3 million in the 2015-quarter compared to a net loss of \$1.1 million in the 2014-period.

As part of Management's strategy to align PHX Energy's cost structure with activity levels, further decreases in staff levels were unfortunately necessary in the second quarter, and \$1.5 million in severance costs were incurred during the quarter. A total of \$4.1 million in severance costs have been incurred in the six-month period ended June 30, 2015 as a result of the significant industry downturn. Various initiatives that were put in place to reduce costs have started to make a positive impact on the Corporation's financial results. Management believes that these initiatives will considerably aid in improving profitability in the upcoming periods.

For the three-month period ended June 30, 2015, \$4.2 million in capital expenditures were incurred and an additional \$3.1 million of equipment is currently on order, which is expected to be received within the next quarter. The 2015 capital budget has been increased from the previously announced \$19.6 million to \$28.3 million. The increase will be primarily used in PHX Energy's strategic programs in progress, particularly the expansion of the Velocity Real-Time System ("Velocity") fleet.

In the 2015-quarter, the Corporation paid dividends of \$3.1 million or \$0.0875 per share. As previously announced, the Board of Directors (the "Board") approved a 50 percent reduction in dividends from \$0.035 per share per month to \$0.0175 per share per month which became effective for the May dividend.

On June 30, 2015, PHX Energy closed a bought deal financing pursuant to a short form prospectus offering for aggregate gross proceeds of \$35.0 million. An aggregate of 6,095,000 common shares of the Corporation were issued at a price of \$5.75 per common share. Concurrent with the closing of the public offering, certain directors and officers of PHX Energy and their associates, purchased a total of 96,700 common shares at a price of \$5.75 per share on a private placement basis. The gross proceeds from the public offering and concurrent private placement totaled approximately \$35.6 million. The net proceeds of \$33.6 million from the offerings were used to temporarily reduce indebtedness, which will be made available to be re-drawn to fund the Corporation's ongoing capital expenditure program and for general corporate purposes.

As at June 30, 2015, PHX Energy had long-term debt of \$67.0 million and working capital of \$58.7 million.

(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,		
	2015	2014	% Change	2015	2014	% Change
<b>Operating Results</b>	<i>(unaudited)</i>	<i>(unaudited)</i>		<i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue	58,487	100,484	(42)	162,414	229,615	(29)
Net earnings (loss)	(8,294)	(1,062)	n.m.	(14,192)	7,751	n.m.
Earnings (Loss) per share – diluted	(0.23)	(0.03)	n.m.	(0.40)	0.22	n.m.
EBITDA <sup>(1)</sup>	418	7,809	(95)	3,642	29,080	(87)
EBITDA per share – diluted <sup>(1)</sup>	0.01	0.22	(95)	0.10	0.83	(88)
<b>Cash Flow</b>						
Cash flows from operating activities	12,550	11,629	8	32,169	19,400	66
Funds from operations <sup>(1)</sup>	340	6,504	(95)	3,639	27,019	(87)
Funds from operations per share – diluted <sup>(1)</sup>	0.01	0.18	(94)	0.10	0.77	(87)
Dividends paid	3,092	7,258	(57)	10,499	14,452	(27)
Dividends per share <sup>(2)</sup>	0.09	0.21	(58)	0.30	0.42	(29)
Capital expenditures	4,214	11,069	(62)	14,817	24,525	(40)
<b>Financial Position (unaudited)</b>				Jun 30, '15	Dec 31, '14	
Working capital				58,676	80,974	(28)
Long-term debt				67,000	104,281	(36)
Shareholders' equity				222,144	199,961	11
Common shares outstanding				41,544,946	35,237,839	18

n.m. – not meaningful

<sup>(1)</sup> Refer to non-GAAP measures section.<sup>(2)</sup> Dividends paid by the Corporation on a per share basis in the period.

## Non-GAAP Measures

PHX Energy uses certain performance measures throughout this Management's Discussion and Analysis ("MD&A") that are not recognizable under Canadian generally accepted accounting principles ("GAAP"). These performance measures include earnings before interest, taxes, depreciation and amortization ("EBITDA"), EBITDA per share, funds from operations, funds from operations per share and debt to EBITDA ratio. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, these may not be comparable. Please refer to the non-GAAP measures section.

## Management's Discussion and Analysis

The following MD&A of the financial condition, results of operations, and cash flow of PHX Energy Services Corp. ("PHX Energy" or the "Corporation") should be read in conjunction with the Corporation's 2014 annual report, including the MD&A, and audited consolidated financial statements and the accompanying notes contained therein, and the Corporation's 2015 unaudited interim second quarter report, including the unaudited condensed consolidated financial statements and the accompanying notes contained therein. Readers can also obtain additional information on the Corporation including its Information Circular and Annual Information Form ("AIF") filed on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A has been prepared taking into consideration information available up to and including August 5, 2015.

PHX Energy's Interim Financial Report for the three and six-month periods ended June 30, 2015 and 2014 has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A and Interim Financial Report were reviewed by PHX Energy's Audit Committee and approved by PHX Energy's Board on August 5, 2015.

## Cautionary Statement Regarding Forward-Looking Information and Statements

This MD&A 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 MD&A 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 MD&A should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this MD&A.

In particular, forward-looking information and statements contained in this MD&A include, without limitation:

- Management believes that the cost cutting initiatives implemented will considerably aid in improving profitability in the upcoming period.
- An additional \$3.1 million of equipment is currently on order, which is expected to be received within the next quarter.
- Velocity is expected to be commercial in 2015 and PHX Energy expects to continue to expand the fleet as demand for this revolutionary technology grows.
- The Corporation expects margins to continue to improve in upcoming periods as the result of several initiatives, including the reduction of labor and equipment repair costs, that were put in place in the first half of 2015.
- Repayments on PHX Energy's loans and borrowings are expected to reduce finance expenses in future periods.
- PHX Energy will continue to add capacity to its gyro surveying division to meet demand for services.
- The Corporation's ability to maintain the current level of dividends to its shareholders is dependent upon the realization of cash flow from operations, and if the Corporation does not meet its budgeted cash flow from operations, dividends to shareholders may be reduced. Activity levels in the industry are seasonal, and as a result, cash flow will fluctuate. Despite these fluctuations, PHX Energy's policy is to try to pay a consistent level of dividends throughout the year.
- Planned capital 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.
- The Corporations' assessment of the outstanding litigations in the United States.

The above are stated under the headings: "Financial Highlight", "About PHX Energy Services Corp.", "Operating Costs and Expenses", "Segmented Information", "Liquidity", "Capital Resources", and "Contingent Liability". Furthermore, all information contained within the Outlook section of this report contains forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this MD&A and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; exchange and interest rates; tax laws; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although Management considers these material factors, expectations and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with the Canadian Securities Regulatory Authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) or at the Corporation's website. The forward-looking statements and information contained in this MD&A 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.

## About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Albania, and Russia. PHX Energy manufactures its E-360 electromagnetic ("EM") and P-360 positive pulse measurement while drilling ("MWD") technologies that are made available for internal operational use. PHX Energy also provides electronic drilling recorder ("EDR") technology and services, through Stream 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; Fort Worth, Texas; Midland, Texas; Buckhannon, West Virginia; Pittsburgh, Pennsylvania; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania and Russia, and administrative offices in Nicosia, Cyprus and Luxembourg City, Luxembourg.

PHX Energy markets its EDR technology and services in Canada through its division, Stream Services, which has an office and operations center in Calgary, Alberta. EDR technology is marketed worldwide outside Canada through its wholly-owned subsidiary Stream Services International Inc.

During the second quarter of 2015, PHX Energy's job capacity remained at 228, with 111 MWD systems deployed in Canada, 102 in the US, 9 in Russia, and 6 in Albania. The Corporation's worldwide resistivity while drilling ("RWD") job capacity also remained at 17.

PHX Energy, in collaboration with leading edge engineering companies in North America, is in the process of developing new technologies. One of these technologies is Velocity. Velocity is a new generation guidance platform that offers unique drilling capabilities to the land market which dramatically reduce risks of non-productive time and enhance drilling performance with highly sophisticated measurements. Having been rigorously tested in some of North America's most challenging drilling environments, in July 2015, PHX Energy began actively marketing Velocity as an EM platform. Engineering efforts and field testing continue on advanced features, including unified telemetry, that are expected to be commercial in 2015. Currently PHX Energy has a fleet of 20 Velocity systems and expects to continue to expand this fleet as demand for this revolutionary technology grows.

# Results of Operations

Three and Six-Month Periods Ended June 30, 2015

## Revenue

*(Stated in thousands of dollars)*

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Revenue	<b>58,487</b>	100,484	(42)	<b>162,414</b>	229,615	(29)

Weak commodity prices continued in the second quarter of 2015, and as a result, industry activity remained slow in all of the Corporation's operating segments. For the three-month period ended June 30, 2015, consolidated revenue decreased by 42 percent to \$58.5 million compared to \$100.5 million in the comparable 2014-period. US and international revenue as a percentage of total consolidated revenue were 68 and 11 percent, respectively, for the 2015-quarter as compared to 66 and 13 percent in 2014. Consolidated operating days decreased by 35 percent to 4,631 days as compared to 7,100 days in the 2014-quarter. With Operators striving to work in the current pricing environment, the Corporation also experienced significant pressures to lower its day rates. In the second quarter of 2015, average consolidated day rates, excluding the motor rental division in the US and the Stream division, decreased by 10 percent to \$12,169 from the day rates of \$13,501 realized in the second quarter of 2014.

In both the Canadian and US industries, there were approximately 50 percent fewer overall rigs running per day in the 2015-quarter versus the second quarter of 2014. In Canada, as in past quarters, nearly all activity, 95 percent, related to horizontal well drilling and in the US, the average number of horizontal rigs running per day continued to trend upward from 67 percent in the second quarter of 2014 to 77 percent in the 2015 quarter. (Sources: Daily Oil Bulletin and Baker Hughes)

For the six-month period ended June 30, 2015, consolidated revenue decreased by 29 percent to \$162.4 million from \$229.6 million for the comparable 2014-period. There were 12,633 consolidated operating days in the six-month period ended June 30, 2015, which is 27 percent lower than the 17,268 days reported in 2014.

## Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Direct costs	<b>58,642</b>	86,333	(32)	<b>155,557</b>	186,977	(17)
Depreciation & amortization (included in direct costs)	<b>9,622</b>	7,480	29	<b>18,927</b>	14,931	27
Gross profit as percentage of revenue excluding depreciation & amortization	<b>16%</b>	22%		<b>16%</b>	25%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment. Excluding depreciation and amortization, gross profit as a percentage of revenue decreased to 16 percent for the three-month period ended June 30, 2015 from 22 percent in the comparable 2014-period. For the six-month period ended June 30, 2015, gross profit as a percentage of revenue, excluding depreciation and amortization, was also 16 percent of revenue as compared to 25 percent in 2014.

The decrease in margins in both the three and six-month periods ended June 30, 2015 was mainly due to:

- weak activity levels in Canada, US, and Albania,
- reduced average day rates in all operating segments, and
- severance payments of \$1.0 million and \$2.7 million in the three and six-month periods ended June 30, 2015, respectively.

For the three-month period ended June 30, 2015, the Corporation's third party equipment rentals were 4 percent of consolidated revenue, which is the same percentage as in the corresponding 2014-quarter.

Depreciation and amortization for the three-month period ended June 30, 2015 increased by 29 percent to \$9.6 million as compared to \$7.5 million in the 2014-quarter. The increase is the result of the Corporation's high level of capital expenditures in 2014 and the first quarter of 2015.

During the first half of 2015, several initiatives, including the reduction of labor and equipment repair costs, were put in place to improve margins in the current low pricing environment. Late in the second quarter of 2015, the Corporation started to realize the positive impact of these initiatives and expects this trend to continue in the upcoming periods.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Selling, general & administrative ("SG&A") costs	<b>9,136</b>	14,523	(37)	<b>21,706</b>	29,128	(25)
Equity-settled share-based payments (included in SG&A costs)	<b>333</b>	204	63	<b>533</b>	414	29
SG&A costs excluding equity-settled share-based payments as a percentage of revenue	<b>15%</b>	14%		<b>13%</b>	13%	

SG&A costs for the three-month period ended June 30, 2015 decreased by 37 percent to \$9.1 million as compared to \$14.5 million in 2014. Included in SG&A costs for the 2015 and 2014-quarters are equity-settled share-based payments of \$0.3 million and \$0.2 million, respectively. Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month periods ended June 30, 2015 and 2014 were 15 percent and 14 percent, respectively. Included in SG&A costs for the three and six-month periods ended June 30, 2015 were severance costs of \$0.5 million and \$1.4 million, respectively.

The decrease in SG&A costs, in dollar terms, in the 2015-periods was mainly due to reduced personnel and marketing related costs associated with the overall decrease in activity across all of the Corporation's operating segments.

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, 2015, equity-settled share-based payments increased by 63 and 29 percent, respectively, as compared to the corresponding 2014-periods, mainly due to compensation expense related to options that were granted at the end of March, 2015.

Cash-settled share-based retention awards, which are included in SG&A costs, are measured at fair value, and in the 2015-quarter, the related compensation expense recognized by PHX Energy decreased to a recovery of \$33,000 as compared to an expense of \$2.0 million in the 2014-quarter. The decrease is primarily due to the re-valuation of the retention awards based on the decrease in PHX Energy's stock price from \$7.03 as at March 31, 2015 to \$5.48 as at June 30, 2015.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Research & development expense	<b>316</b>	660	(52)	<b>1,175</b>	1,497	(22)

Research and development ("R&D") expenditures charged to net earnings during the three-month periods ended June 30, 2015 and 2014 were \$0.3 million and \$0.7 million, respectively. During the 2015-quarter, \$139,000 of R&D expenditures were capitalized as development costs (2014-quarter - nil).

For the six-month period ended June 30, 2015, R&D expenditures incurred decreased by 22 percent to \$1.2 million from \$1.5 million in the corresponding 2014-period.

The decrease in R&D expenditures in both 2015-periods is mainly due to \$0.3 million of scientific research and experimental development tax credits that were received in the second quarter of 2015 and a reduction to the number of personnel in the R&D department.

*(Stated in thousands of dollars)*

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Finance expense	1,003	862	16	2,132	1,892	13

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. Finance charges increased to \$1.0 million in the second quarter of 2015 from \$0.9 million in the 2014-quarter, and in the six-month period ended June 30, 2015 increased to \$2.1 million from \$1.9 million in the 2014-period. The increase in both periods was primarily due to the higher amount of borrowings outstanding during the three and six-month periods ended June 30, 2015. At the end of the 2015-quarter, the Corporation made significant repayments on its loans and borrowings. This is expected to reduce finance expenses in future periods.

*(Stated in thousands of dollars)*

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2015	2014	2015	2014
Gains on disposition of drilling equipment	712	1,599	607	3,263
Foreign exchange gains (losses)	(271)	18	169	(392)
Provision for bad debts	(38)	(256)	(38)	(735)
Other income	403	1,361	738	2,136

For the three and six-month periods ended June 30, 2015, other income is mainly represented by gains on the disposition of drilling equipment of \$0.7 million (2014 - \$1.6 million) and \$0.6 million (2014 - \$3.3 million), respectively. The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. Gains typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. The gains reported in both 2015-periods were net of any asset retirements that were made before the end of the equipment's useful life and self-insured down hole equipment losses, both of which occurred more frequently in the 2015-periods compared to the 2014-periods. The decrease in gains in the 2015-periods primarily resulted from the increased frequency of these occurrences.

Offsetting other income for the three-month period ended June 30, 2015 is a foreign exchange loss of \$0.3 million (2014 - gain of \$18,000), which resulted mainly from the revaluation of Canadian-denominated intercompany payables in the US. The US dollar slightly weakened against the Canadian dollar during the second quarter of 2015.

For the six-month period ended June 30, 2015, included in other income is foreign exchange gains of \$0.2 million (2014 - loss of \$0.4 million), which also mainly resulted from the revaluation of Canadian-denominated intercompany payables in the US. The US dollar generally strengthened against the Canadian dollar during the first half of 2015.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2015	2014	2015	2014
Provision for (Recovery of) income taxes	(1,913)	529	(3,225)	4,506
Effective tax rates	19%	n.m.	19%	37%

n.m. - not meaningful

The recovery of income taxes for the three-month period ended June 30, 2015 was \$1.9 million as compared to a provision for income taxes of \$0.5 million in the 2014-quarter. For the six-month period ended June 30, 2015, the recovery of income taxes was \$3.2 million as compared to a provision for income taxes of \$4.5 million in the corresponding 2014-period. The Government of Alberta increased the corporate income tax rate from 10 percent to 12 percent, resulting in a blended corporate tax rate of 11 percent for the year ended December 31, 2015. This was substantively enacted in June, 2015. As a result, the expected combined Canadian federal and provincial tax rate for 2015 was increased to 26 percent. The effective tax rates in the 2015-periods were lower than the expected rate primarily due to additional tax provisions that resulted from the provincial tax rate increase and the impact of non-deductible expenses.

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

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Net earnings (loss)	(8,294)	(1,062)	n.m.	(14,192)	7,751	n.m.
Earnings (Loss) per share – diluted	(0.23)	(0.03)	n.m.	(0.40)	0.22	n.m.
EBITDA	418	7,809	(95)	3,642	29,080	(87)
EBITDA per share – diluted	0.01	0.22	(95)	0.10	0.83	(88)
EBITDA as a percentage of revenue	1%	8%		2%	13%	

n.m. - not meaningful

In the three and six-month periods ended June 30, 2015, the Corporation's level of net earnings and EBITDA have decreased primarily as a result of slow drilling activity and reduced average day rates realized. EBITDA as a percentage of revenue for the three and six-month periods ended June 30, 2015 was 1 percent and 2 percent, respectively (2014 - 8 percent and 13 percent). Included in the net loss for the 2015-quarter and six-month period were losses of \$1.4 million and

\$3.5 million, respectively, from the Stream division (2014 - losses of \$1.2 million and \$1.9 million). The increase in the Stream division's losses was mainly due to severance costs incurred during the 2015-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, mainly in Albania and Russia.

### Canada

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Revenue	12,317	21,618	(43)	49,820	80,249	(38)
Reportable segment profit (loss) before tax	(5,545)	(6,701)	17	(9,481)	3,106	n.m.
Reportable segment profit (loss) before tax as a percentage of revenue	n.m.	n.m.		n.m.	4%	

n.m. - not meaningful

For the three-month period ended June 30, 2015, PHX Energy's Canadian revenue decreased by 43 percent to \$12.3 million from \$21.6 million in the corresponding 2014-period. Canadian industry drilling activity was slower than the typical levels seen in a spring break-up period. In the second quarter of 2015, the Canadian segment reported 1,233 operating days, a 32 percent decrease compared to 1,819 days in the 2014-period. In comparison, total industry horizontal and directional drilling activity, as measured by drilling days, declined by 50 percent in the 2015-quarter to 9,183 days from 18,502 days in the 2014-quarter. (Source: Daily Oil Bulletin) In addition, market uncertainty continued to push down average day rates, which decreased by 12 percent to \$9,692 in the 2015-quarter from \$11,066 in the 2014-quarter, excluding Stream revenue of \$0.4 million.

During the 2015-quarter, the Canadian division continued to have a very strong presence in the Montney. Oil drilling, as measured by drilling days, represented approximately 32 percent of PHX Energy's Canadian activity in the second quarter of 2015 (2014 - 70 percent). In the second quarter of 2015, despite decreased activity, market share remained strong and the Corporation remained active in the Shaunavon, Bakken, Lloydminster, Cardium and Viking areas.

For the six-month period ended June 30, 2015, PHX Energy's Canadian revenue decreased by 38 percent to \$49.8 million from \$80.2 million in the comparable 2014-period. The Corporation's operating days decreased by 32 percent to 4,768 days in the 2015 six-month period from 7,055 days in the 2014-period. In comparison, for the six-month period ended June 30, 2015, the number of horizontal and directional drilling days realized in the Canadian industry decreased by 40 percent to 33,486 days as compared to 55,879 days in the first half of 2014. (Sources: Daily Oil Bulletin) In the six-month period ended June 30, 2015, oil drilling represented approximately 50 percent of PHX Energy's Canadian activity.

Reportable segment loss before tax for the second quarter of 2015 was \$5.5 million as compared to \$6.7 million in the 2014-quarter. Included in the Canadian segment's losses in the 2015-quarter was a loss of \$1.9 million (2014 - \$1.9 million) from the Stream division. Despite the decline in revenues, segment profitability improved quarter-over-quarter mainly as a result of cost-saving initiatives that were successfully implemented in the Corporation's Canadian operations.

For the six-month period ended June 30, 2015, reportable segment profit before tax decreased to a loss of \$9.5 million from a profit of \$3.1 million (4 percent of revenue) in the 2014-period. Lower profitability during the first half of 2015 was generally due to weak activity levels in the 2015 six-month period and a high cost structure in the first quarter of 2015.

## United States

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Revenue	<b>39,740</b>	65,866	(40)	<b>99,976</b>	123,308	(19)
Reportable segment profit (loss) before tax	<b>(4,694)</b>	6,547	n.m.	<b>(5,957)</b>	11,611	n.m.
Reportable segment profit (loss) before tax as a percentage of revenue	<b>n.m.</b>	10%		<b>n.m.</b>	9%	

n.m. - not meaningful

For the three-month period ended June 30, 2015, the US segment's revenue decreased by 40 percent to \$39.7 million from \$65.9 million in the 2014-period. PHX Energy's US operating days decreased by 39 percent from 4,375 days in the 2014-quarter to 2,673 days in the 2015-quarter. Average day rates, excluding the motor rental division in Midland, Texas and the Rocky Mountain region, were stable at \$14,210 in the 2015-quarter compared to \$14,340 in the 2014-period. This stability in day rates was mainly the result of the stronger US dollar during the second quarter of 2015 relative to the same period in 2014. Excluding the effects of foreign exchange, the average day rates decreased by 12 percent to \$12,602 in the 2015-quarter.

Horizontal and directional drilling represented 87 percent of the average number of rigs running on a daily basis in the second quarter of 2015 which was 9 percent greater than the percentage in 2014. However, the actual number of horizontal and directional rigs running per day was down 46 percent, with an average of 793 horizontal and directional rigs running on a daily basis during the 2015-quarter compared to 1,458 rigs in the 2014-quarter. (Source: Baker Hughes) For the three-month period ended June 30, 2015, oil well drilling, as measured by wells drilled and excluding the motor rental and gyro surveying divisions, increased to 61 percent of PHX Energy's US activity (2014 - 53 percent). During the second quarter of 2015, Phoenix USA remained active in the Permian, Eagle Ford, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins and market share was also maintained in all US regions.

US revenue for the six-month period ended June 30, 2015 decreased by 19 percent to \$100.0 million from \$123.3 million in the comparable 2014-period. In the first half of 2015, the Corporation's US operating days also decreased by 22 percent to 6,430 days from 8,285 days in the 2014-period. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, decreased by 31 percent in the first half of 2015 to 989 rigs from 1,424 rigs in the comparable 2014-period. (Source: Baker Hughes)

Reportable segment profit before tax for the three-month period ended June 30, 2015 decreased to a loss of \$4.7 million from a profit of \$6.5 million (10 percent of revenue) in the 2014-quarter. For the six-month period ended June 30, 2015, reportable segment profit before tax decreased to a loss of \$6.0 million from a profit of \$11.6 million (9 percent of revenue) in the comparative 2014-period. Decreased profitability in the 2015-periods was mainly the result of weaker activity levels and reduced average day rates.

In order to reduce cost and gain operational efficiencies, PHX Energy consolidated all US coordinating and equipment servicing in its newly built facility in Houston, Texas and re-located the Casper, Wyoming and Traverse City, Michigan facilities to smaller staging areas that are closer to the drilling activity in these regions. PHX Energy remains active and continues to market its services in the Northeast and Rocky Mountain regions of the US.

Activity related to the motor rental business operated in Gulf Coast and Rocky Mountain regions has remained steady but has also been impacted through the downturn. The new gyro surveying division which became operational in October, 2014 in the Permian basin is poised to grow and PHX Energy will continue to add capacity to this division to meet demand for services.

## International

(Stated in thousands of dollars, except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Revenue	<b>6,430</b>	13,000	(51)	<b>12,618</b>	26,058	(52)
Reportable segment profit before tax	<b>1,573</b>	2,683	(41)	<b>2,756</b>	5,291	(48)
Reportable segment profit before tax as a percentage of revenue	<b>24%</b>	21%		<b>22%</b>	20%	

In the second quarter of 2015, PHX Energy's international operations continued to be impacted by the reduced drilling activity in Albania and the devalued Russian Ruble against the Canadian Dollar, despite growth in activity for the Russian operations. For the three-month period ended June 30, 2015, the Corporation's international revenue decreased by 51 percent to \$6.4 million from \$13.0 million generated in the 2014-period. International operating days decreased by 20 percent from 906 days in the 2014-quarter to 726 days in the 2015-quarter. The Corporation generated 11 percent of its consolidated revenue from its international operations in the 2015-quarter compared to 13 percent in the 2014-quarter.

For the six-month period ended June 30, 2015, revenue decreased by 52 percent to \$12.6 million from \$26.1 million in the comparable 2014-period. International operating days in the first half of 2015 were 1,435 days, 26 percent lower compared to the 1,927 days generated in the 2014-period.

The dramatic reduction to Phoenix Albania's activity levels that occurred in the first quarter of 2015 continued into the second quarter of the year with only two active rigs operating for the majority of the quarter. As a result, for the three-month period ended June 30, 2015, Phoenix Albania's activity decreased by 64 percent as compared to the corresponding 2014-period. Despite the decline in activity and accompanying pricing concessions, the Albanian operations remained profitable as efforts to reduce the cost base were successful. The use of local personnel was maximized where possible and initiatives to optimize equipment through collaborative efforts with clients have helped improve operational and financial performance. At the end of the quarter, the Albanian operations added a new rig for an Albanian operator diversifying the client base.

PHX Energy's Russian operations had a strong quarter despite the weak value of the Russian Ruble and the prevailing economic and geopolitical climate in Russia. In the second quarter of 2015, Phoenix Russia's operating days increased by 41 percent as compared to the 2014-period, and increased by 17 percent as compared to the first quarter of 2015. The growth in the Russian operations is mainly the result of the Corporation's long term initiatives to diversify its client base. Several rigs from various drilling contractors were added during the quarter and Phoenix Russia was also awarded a new contract which added three sustained rigs to the operation.

Reportable segment profit from international operations for the three-month period ended June 30, 2015 was \$1.6 million (24 percent of revenue), which is 41 percent lower than the \$2.7 million (21 percent of revenue) in the corresponding 2014-period. Reportable segment profit for the six-month period ended June 30, 2015 was \$2.8 million (22 percent of revenue) as compared to \$5.3 million (20 percent of revenue) in the 2014-period; a 48 percent decrease. The decrease in the international operations' profitability, in dollar amounts, in both 2015-periods is mainly due to weaker activity levels in Albania.

## Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Jun-15	Mar-15	Dec-14 <sup>(1)</sup>	Sept-14	Jun-14	Mar-14	Dec-13 <sup>(2)</sup>	Sept-13 <sup>(3)</sup>
Revenue	<b>58,487</b>	103,928	152,881	138,971	100,484	129,131	115,543	106,971
Net earnings (loss)	<b>(8,294)</b>	(5,898)	16,220	13,024	(1,062)	8,813	7,501	9,786
Earnings (Loss) per share – basic	<b>(0.23)</b>	(0.17)	0.46	0.37	(0.03)	0.26	0.23	0.34
Earnings (Loss) per share – diluted	<b>(0.23)</b>	(0.17)	0.46	0.37	(0.03)	0.25	0.23	0.34
EBITDA	<b>418</b>	3,224	29,040	25,551	7,809	21,271	17,611	20,623
EBITDA per share - diluted	<b>0.01</b>	0.09	0.82	0.72	0.22	0.61	0.54	0.71

<sup>(1)</sup> Excludes impairment loss on goodwill.

<sup>(2)</sup> Excludes gains from the re-measurement to fair value of pre-existing ownership interests in acquired subsidiaries.

<sup>(3)</sup> Excludes gain on sale of land and operations centre and write-off of technological assets.

Activity levels in western Canada vary considerably due to seasonal weather patterns. Traditionally, the first quarter of the calendar year is the most active for service companies due to cold weather, however, due to favourable commodity price levels in the latter part of the past two years, the third and fourth quarters have been very active. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring break-up" has a direct impact on the Corporation's activity levels. As a result, late March through May is traditionally the Corporation's slowest time, as such, the operating results of the Corporation vary on a quarterly basis. The Corporation's activity levels in the US and international regions are not impacted at the same level during this Canadian spring break-up period.

## Liquidity

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2015	2014	2015	2014
Funds from operations	340	6,504	3,639	27,019

  

	June 30, '15	Dec. 31, '14
Working capital	58,676	80,974

Funds from operations decreased from \$6.5 million in the 2014-quarter to \$0.3 million in the three-month period ended June 30, 2015. For the six-month period ended June 30, 2015, the funds from operations decreased to \$3.6 million from \$27.0 million in the comparable 2014-period. The decrease in funds from operations in both 2015-periods was generally due to the decline in activity levels and profitability that resulted mainly from weak commodity prices that continued through the second quarter of 2015.

As at June 30, 2015, the Corporation had working capital of \$58.7 million, which was \$22.3 million lower than the \$81.0 million reported at December 31, 2014. The decrease in working capital was generally due to the lower level of trade receivables at June 30, 2015 that was mainly a result of decreased revenues realized during the first half of 2015. The amounts available to be drawn from PHX Energy's credit facilities are limited by the Corporation's borrowing base, which is \$151.5 million as at June 30, 2015. The Corporation had approximately CAD\$55.2 million and US\$25 million available to be drawn from its credit facilities as at June 30, 2015.

## Cash Flow and Dividends

As a dividend paying corporation, PHX Energy typically declares monthly dividends to its shareholders. The Corporation continually reviews its dividend rates, including on a quarterly basis, and takes into consideration its own financial performance, forecasted activity levels and the industry outlook. The actual amount of future monthly dividends is proposed by Management and is subject to the approval of the Board. The Board reviews future dividends in conjunction with their review of quarterly financial and operating results. The Corporation's ability to maintain the current level of dividends to its shareholders is dependent upon the realization of cash flow from operations, and if the Corporation does not meet its budgeted cash flow from operations, dividends to shareholders may be reduced. Activity levels in the industry are seasonal, and as a result, cash flow will fluctuate. Despite these fluctuations, PHX Energy's policy is to try to pay a consistent level of dividends throughout the year. In addition, under the Corporation's credit agreement with its bank, PHX Energy is also subject to a negative covenant which limits the annual dividends based on the amount of its yearly distributable cash flow, as defined in the credit agreement.

For the three-month period ended June 30, 2015, dividends of \$3.1 million (2014 – \$7.3 million) were financed mainly from the Corporation's cash flow from operations.

On May 6, 2015, the Corporation's Board of Directors approved a further 50 percent reduction to its dividend from \$0.035 per share per month to \$0.0175 per share per month which became effective for the Corporation's May dividend.

## Investing Activities

Net cash used in investing activities for the three-month period ended June 30, 2015 was \$8.0 million as compared to \$10.7 million in 2014. In the second quarter of 2015, PHX Energy added \$2.6 million, net, in capital equipment (2014 - \$6.8 million). The capital equipment amounts are net of proceeds from the involuntary disposal of drilling equipment in well bores of \$1.6 million (2014 - \$4.3 million). The quarterly 2015 expenditures included:

- \$1.9 million in MWD systems and spare components;
- \$1.3 million in machinery and equipment;
- \$0.4 million in down hole performance drilling motors;
- \$0.2 million in non-magnetic drill collars; and
- \$0.4 million in other assets, including \$0.2 million in leasehold improvements and \$0.1 million in gyro surveying equipment.

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

During the 2015-quarter, the Corporation spent \$1.2 million in development costs. The change in non-cash working capital balances of \$4.2 million (use of cash) for the three-month period ended June 30, 2015, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to \$3.5 million (use of cash) for the three-month period ended June 30, 2014.

## Financing Activities

The Corporation reported cash flows used in financing activities of \$9.8 million in the three-month period ended June 30, 2015 as compared to cash flows used in financing activities of \$1.2 million in the 2014-period. In the 2015-quarter:

- through a short form prospectus equity financing and a concurrent private placement, the Corporation realized net proceeds of \$33.6 million through the issuance of 6,191,700 shares;
- through its DRIP program, the Corporation received cash proceeds of \$0.2 million from reinvested dividends to acquire 27,715 common shares of the Corporation;
- the Corporation paid dividends of \$3.1 million to shareholders, or \$0.09 per share; and
- the Corporation made aggregate net repayments of \$40.5 million on its operating and syndicated facilities.

## Capital Resources

As at June 30, 2015, the Corporation has access to a CAD\$15 million operating facility. The facility bears interest based primarily on the Corporation's debt to EBITDA ratio, as defined in the agreement. At the Corporation's option, interest is at the bank's prime rate plus a margin that ranges from a minimum of 0.50 percent to a maximum of 1.75 percent, or the bank's bankers' acceptance rate plus a margin that ranges from a minimum of 1.50 percent to a maximum of 2.75 percent. As of June 30, 2015, the Corporation had \$4.3 million drawn on this facility.

As at June 30, 2015, the Corporation also has access to a CAD\$160 million syndicated facility and a US\$25 million operating facility in the US. The facilities bear interest at the same rates disclosed above. The syndicated facility and the US operating facility mature on December 12, 2018 and can be extended annually, provided that the requested new maturity date does not exceed four years. As at June 30, 2015, CAD\$67 million was drawn on the syndicated facility and there was nil drawn on the US operating facility.

Upon request by the Corporation and approval by the lenders, the syndicated facility can also be expanded by an additional CAD\$50 million accordion option to the Canadian revolving line of credit.

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at June 30, 2015, 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. The 2015 capital budget has been increased from the previously announced \$19.6 million to \$28.3 million, mainly to fund the expansion of the Corporation's Velocity fleet. 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 2015, 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.

## Contractual Obligations

The following table reflects the Corporation's anticipated payment of contractual obligations related to continuing operations as at June 30, 2015.

*(Stated in thousands of dollars)*

	2015	2016	2017	2018	2019
Operating facility	4,304	-	-	-	-
Loans and borrowings	-	-	-	67,000	-
Drilling and other equipment	3,118	-	-	-	-
Operating leases	7,027	6,335	6,029	5,879	5,758
Finance leases	152	-	-	-	-
Trade and other payables	32,272	-	-	-	-
Dividends payable	727	-	-	-	-
Total	47,600	6,335	6,029	72,879	5,758

## Contingent Liabilities

- a) As previously announced, the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), has been named in a legal action in Houston, Texas. The claimants alleged that they were improperly classified as exempt under the Fair Labour Standards Act and therefore entitled to unpaid overtime.

On January 26, 2015, the action was conditionally certified as a collective action. On April 27, 2015, the 60-day opt in process was completed and Phoenix USA received the names of individuals who have elected to opt-into the lawsuit. Phoenix USA intends to vigorously defend against this action and based upon an assessment of the latest information available and certain assumptions the Corporation believes to be reasonable at this time, PHX Energy believes that the potential liability relating to this lawsuit is immaterial.

- b) On February 20, 2015, Phoenix USA was named in a second legal action in Houston, Texas commenced by two former consultants and joined by one consultant during the quarter (the "Claimants"), alleging that they were improperly classified as independent contractors (as opposed to employees) under the Fair Labor Standards Act and are entitled to unpaid overtime. Legal actions involving similar allegations have been filed in the United States against a number of other drilling companies.

The Claimants assert that a class of similarly situated individuals retained as consultants or contractors should be conditionally certified and notified of the lawsuit and allowed to join. However, no such motion to conditionally certify a class has been filed. Phoenix USA has filed a defense to the action and intends to vigorously defend the same including, without limitation, the conditional certification of the action. Based upon a preliminary assessment of information available and certain assumptions the Corporation believes to be reasonable at this time, PHX Energy currently does not believe this action to be material to the Corporation.

- c) On May 29, 2015, Phoenix USA was named in a legal action in Pittsburgh, Pennsylvania commenced by a former employee claiming that he was improperly classified as exempt under the Pennsylvania Minimum Wage Act ("PMWA") and therefore entitled to unpaid overtime. In this class action complaint, it was alleged that improper classification was imposed on similarly situated individuals (PMWA class members). Legal actions involving similar allegations have been filed in the United States against a number of other drilling companies.

Phoenix USA is still in the early stages of its investigation into the subject matter and facts. The Corporation has filed a defense to the action and intends to vigorously defend the same. Based on the recent filing of the lawsuit, the ongoing initial investigation, and the potential available defenses, PHX Energy has assessed that the amount of potential liability relating to this lawsuit is not yet determinable at this time.

The Corporation does not undertake any obligation to update publicly the status of these actions whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws or the situation otherwise warrants.

## Off-Balance Sheet Arrangements

The Corporation had no off-balance sheet arrangements as at June 30, 2015 and 2014, other than operating leases.

## Proposed Transactions

The Corporation reviews and evaluates any material business acquisitions or capital asset divestitures in the normal course of its operations.

## Critical Accounting Estimates

The consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Corporation's significant accounting policies are described in its annual audited consolidated financial statements for the year ended December 31, 2014. Management, in preparing these financial statements, is required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and judgments are based upon assumptions that are considered reasonable under the circumstances. Actual results could differ from such estimates and judgments by a material amount. The significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2014.

## Changes in Accounting Policies

The condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2014.

## Business Risk Factors

The business risk factors applicable to the Corporation have not materially changed since December 31, 2014. Refer to the "Business Risk Factors" section of the MD&A in the PHX Energy's 2014 annual report.

## Corporate Governance

This MD&A has been prepared by the Management of PHX Energy and it has been reviewed and approved by the Audit Committee and the Board of Directors of the Corporation. Additional information relating to the Corporation's Corporate Governance can be found in the Corporation's Annual Information Form and Information Circular in respect of its annual meeting of shareholders, each of which are annually filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Corporation's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

## Internal Controls Over Financial Reporting

The Corporation's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting related to the Corporation, including its consolidated subsidiaries to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and preparation of financial statements together with other financial information for external purposes in accordance with IFRS.

The Corporation is required to disclose herein any change in the Corporation's internal controls over financial reporting that occurred during the period beginning on April 1, 2015 and ending on June 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting. No material changes in the Corporation's internal controls over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

It should be noted that a control system, including the Corporation's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

## Outstanding Corporation Share Data

<i>(In thousands of shares)</i>		<b>As at August 5, 2015</b>
Common shares outstanding		41,550,095
Dilutive securities:		
Options		2,637,661
Corporation shares – diluted		44,187,756

## Outlook

In the second quarter, PHX Energy remained focused on two strategic objectives targeted at strengthening the position of the Corporation in light of the difficult industry conditions. The first was to maintain the strongest possible financial position and the second was to position the Corporation as a leaner, more efficient organization with significant competitive differentiators.

Despite some optimistic trends in the commodity markets near the end of the second quarter, oil and natural gas prices have remained volatile, recently experiencing another downward trend. With this instability and uncertainty, the North American rig counts remain at levels not seen since the 2008 global financial crisis.

As Operators struggle to make their drilling programs economic, competition on the service side of the industry has greatly intensified. There is a large over supply in the directional market, which was equipped to service double the current demand, and pricing pressures mounted during the quarter as Operators strived to drive their drilling costs down.

Faced with the challenges of significantly lower activity and reduced day rates, PHX Energy had to adjust its cost structure dramatically to minimize operating losses and maximize profitability in the new environment. This process began in the fourth quarter of 2014 and continued through the second quarter of 2015. Although many difficult decisions were required, PHX Energy believes that the cost cutting measures taken are producing the desired results and that the stability created will be even more evident in the upcoming quarters. In addition, PHX Energy completed a bought deal financing that resulted in approximately \$35 million in gross proceeds, which will strengthen the balance sheet and ensure the Corporation is adequately funded for future capital expenditure programs.

The Corporation strongly believes in the importance of its objective to deliver solutions that will differentiate its operations and allow it to be poised for future growth when the industry rebounds. Many strategic initiatives had been underway in 2014 and PHX Energy continued to drive these forward in 2015.

One such initiative was the development of a measurement while drilling platform that offers the land market a step change in reliability and performance. The Corporation is pleased to announce it is now actively marketing this technology, Velocity, to its clients in North America. Having proven the value that Velocity can deliver to well site operations during the intense field testing phase, PHX Energy has already experienced increased demand from clients for this solution. In addition, the Corporation is continuing to develop the technology and expects to deliver additional capabilities, such as unified telemetry (the ability to transmit data via mud pulse signal, electromagnetic signal or both simultaneously), to the market in 2015. Velocity is a key pillar in the Corporation's longer term strategy to revolutionize the way a horizontal well is drilled. PHX Energy believes the combination of drilling optimization, highly trained field personnel and cutting edge technology such as Velocity will provide significant efficiency improvements in the future. As the Velocity fleet is expanded, the Corporation believes this competitive advantage will fuel further market share growth and profitability.

PHX Energy maintains its belief that the industry as a whole will continue to struggle at low drilling rig utilization rates until a meaningful decline in oil production occurs and propels an increase in the price of crude oil. The Corporation remains convinced that this decline in crude oil production will need to be realized in the US before prices improve. Crude oil production in the US has remained strong despite the steep decline in the number of rigs drilling in that market. Rigs focused on oil drilling have dropped by 60 percent from recent historical highs, but oil production in the US remains near record levels at close to 9.5 million barrels per day.

In a contracted market with many challenges, quality of service is paramount and PHX Energy is proud that its North American and international operations have retained, and even gained, market share. Although the challenges of a low commodity price environment will persist and uncertainty remains, the Corporation looks to maximize profitability in future quarters. PHX Energy will continue to be diligently focused on maintaining a strong financial position and believes with the successful execution of its strategic objectives it will be in a very strong position for continued market share growth and margin improvement in all operating divisions when the industry environment begins to improve.



Michael Buker  
President  
August 5, 2015

## Non-GAAP Measures

### 1) EBITDA

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is not a financial measure that is recognized under GAAP. However, Management believes that EBITDA provides supplemental information to net earnings that is useful in evaluating the Corporation's operations before considering how it was financed or taxed in various countries. Investors should be cautioned, however, that EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating EBITDA may differ from that of other organizations and, accordingly, its EBITDA may not be comparable to that of other companies.

The following is a reconciliation of net earnings to EBITDA:

*(Stated in thousands of dollars)*

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2015	2014	2015	2014
Net earnings (loss)	(8,294)	(1,062)	(14,192)	7,751
Add:				
Depreciation and amortization	9,622	7,480	18,927	14,931
Provision for (Recovery of) income taxes	(1,913)	529	(3,225)	4,506
Finance expense	1,003	862	2,132	1,892
EBITDA as reported	418	7,809	3,642	29,080

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

## 2) Funds from Operations

Funds from operations is defined as cash flows generated from operating activities before changes in non-cash working capital, 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,	
	2015	2014	2015	2014
Cash flows from operating activities	12,550	11,629	32,169	19,400
Add:				
Changes in non-cash working capital	(14,126)	(6,505)	(32,756)	5,118
Interest paid	780	893	1,764	1,628
Income taxes paid	1,136	487	2,462	873
Funds from operations	340	6,504	3,639	27,019

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 EBITDA Ratio

Debt is represented by loans and borrowings. EBITDA, for purposes of the calculation of this covenant ratio, is represented by EBITDA as defined in Non-GAAP Measures above and adding share-based payments, impairment losses, and unrealized foreign exchange losses.

## Condensed Consolidated Statements of Financial Position

(unaudited)

	June 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,398,876	\$ 3,018,445
Trade and other receivables	54,333,212	122,272,125
Inventories	33,250,863	32,423,158
Current tax receivables	652,083	-
Prepaid expenses	4,496,414	4,505,300
Total current assets	96,131,448	162,219,028
Non-current assets:		
Drilling and other equipment (Note 6)	191,552,125	190,891,854
Goodwill	16,229,756	16,229,756
Intangible assets	27,077,130	25,581,960
Total non-current assets	234,859,011	232,703,570
Total assets	\$ 330,990,459	\$ 394,922,598
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Operating facility	\$ 4,304,274	\$ 5,503,176
Trade and other payables	32,272,310	72,203,463
Dividends payable (Note 9b)	727,037	2,466,649
Current tax liabilities	-	832,352
Current portion of finance leases	151,531	238,911
Total current liabilities	37,455,152	81,244,551
Non-current liabilities:		
Loans and borrowings (Note 8)	67,000,000	104,280,800
Deferred tax liabilities	2,625,050	7,602,868
Deferred income	1,766,669	1,833,335
Total non-current liabilities	71,391,719	113,717,003
Equity:		
Share capital (Note 9a)	213,556,162	178,650,340
Contributed surplus	5,046,500	4,513,265
Retained earnings	(6,089,462)	16,861,918
Accumulated other comprehensive income	9,630,388	(64,479)
Total equity	222,143,588	199,961,044
Total liabilities and equity	\$ 330,990,459	\$ 394,922,598

See accompanying notes to unaudited condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2015	2014	2015	2014
Revenue	\$ 58,486,717	\$ 100,484,150	\$ 162,414,406	\$ 229,614,660
Direct costs	58,641,943	86,333,058	155,557,324	186,976,870
Gross profit	(155,226)	14,151,092	6,857,082	42,637,790
Expenses:				
Selling, general and administrative expenses	9,136,328	14,523,261	21,705,550	29,127,887
Research and development expenses	316,032	660,226	1,174,614	1,497,470
Finance expense	1,003,055	861,744	2,132,234	1,892,041
Other income (Note 10)	(403,097)	(1,360,839)	(738,214)	(2,136,085)
	10,052,318	14,684,392	24,274,184	30,381,313
Earnings (Loss) before income taxes	(10,207,544)	(533,300)	(17,417,102)	12,256,477
Provision for (Recovery of) income taxes				
Current	556,368	1,926,514	978,417	2,586,179
Deferred	(2,469,606)	(1,397,394)	(4,203,668)	1,919,616
	(1,913,238)	529,120	(3,225,251)	4,505,795
Net earnings (loss)	(8,294,306)	(1,062,420)	(14,191,851)	7,750,682
Other comprehensive income				
Foreign currency translation	(1,139,206)	(2,103,649)	9,694,867	(677,895)
Total comprehensive income (loss) for the period	\$ (9,433,512)	\$ (3,166,069)	\$ (4,496,984)	\$ 7,072,787
Earnings (Loss) per share – basic	\$ (0.23)	\$ (0.03)	\$ (0.40)	\$ 0.22
Earnings (Loss) per share – diluted	\$ (0.23)	\$ (0.03)	\$ (0.40)	\$ 0.22

See accompanying notes to unaudited condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Changes in Equity

(unaudited)

Six-month period ended	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
June 30, 2015	Number	Amount (\$)				
Balance, December 31, 2014	35,237,839	\$ 178,650,340	\$ 4,513,265	\$ (64,479)	\$ 16,861,918	\$ 199,961,044
Issuance of share capital (note 9a)	6,307,107	34,905,822	-	-	-	34,905,822
Share-based payments	-	-	533,235	-	-	533,235
Net loss	-	-	-	-	(14,191,851)	(14,191,851)
Foreign currency translation	-	-	-	9,694,867	-	9,694,867
Dividends	-	-	-	-	(8,759,529)	(8,759,529)
Balance, June 30, 2015	41,544,946	\$ 213,556,162	\$ 5,046,500	\$ 9,630,388	\$ (6,089,462)	\$ 222,143,588

Six-month period ended	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
June 30, 2014	Number	Amount (\$)				
Balance, December 31, 2013	34,218,974	\$ 165,451,599	\$ 6,361,710	\$ 2,379,019	\$ 24,284,690	\$ 198,477,018
Issuance of share capital	759,672	7,695,434	-	-	-	7,695,434
Share-based payments	-	-	414,084	-	-	414,084
Fair value of options exercised	-	2,321,575	(2,321,575)	-	-	-
Net earnings	-	-	-	-	7,750,682	7,750,682
Foreign currency translation	-	-	-	(677,895)	-	(677,895)
Dividends	-	-	-	-	(14,660,805)	(14,660,805)
Balance, June 30, 2014	34,978,646	\$ 175,468,608	\$ 4,454,219	\$ 1,701,124	\$ 17,374,567	\$ 198,998,518

See accompanying notes to unaudited condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2015	2014	2015	2014
Cash flows from operating activities:				
Net earnings (loss)	\$ (8,294,306)	\$ (1,062,420)	\$ (14,191,851)	\$ 7,750,682
Adjustments for:				
Depreciation and amortization	9,622,036	7,480,099	18,926,606	14,931,171
Provision for (Recovery of) income taxes	(1,913,238)	529,120	(3,225,251)	4,505,795
Unrealized foreign exchange loss (gain)	296,672	(131,792)	(878,480)	120,041
Gain on disposition of drilling equipment	(711,897)	(1,599,176)	(606,874)	(3,263,325)
Equity-settled share-based payments	332,836	204,092	533,235	414,084
Finance expense	1,003,055	861,744	2,132,234	1,892,041
Amortization of deferred income	(33,333)	(33,333)	(66,666)	(66,666)
Provision for bad debts	38,407	255,559	38,407	735,098
Other non-cash charges	-	-	977,973	-
Change in non-cash working capital	14,125,923	6,504,853	32,755,742	(5,118,215)
Cash generated from operating activities	14,466,155	13,008,746	36,395,075	21,900,706
Interest paid	(780,009)	(892,311)	(1,763,542)	(1,627,474)
Income taxes paid	(1,136,275)	(487,112)	(2,462,138)	(873,433)
Net cash from operating activities	12,549,871	11,629,323	32,169,395	19,399,799
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	1,604,117	4,293,890	2,669,953	7,405,486
Acquisition of drilling and other equipment	(4,213,753)	(11,069,061)	(14,817,307)	(24,525,334)
Acquisition of intangible assets	(1,216,302)	(436,544)	(2,185,505)	(7,884,816)
Change in non-cash working capital	(4,158,581)	(3,451,293)	(2,735,243)	(4,162,605)
Net cash used in investing activities	(7,984,519)	(10,663,008)	(17,068,102)	(29,167,269)
Cash flows from financing activities:				
Proceeds from issuance of share capital (net)	33,781,646	6,072,119	34,345,361	7,695,434
Dividends paid to shareholders	(3,091,889)	(7,257,519)	(10,499,141)	(14,452,227)
Proceeds from (Repayment of) loans and borrowings	(44,781,400)	-	(37,280,800)	20,000,000
Payments under finance leases	(43,725)	(49,047)	(87,380)	(101,079)
Proceeds from (Repayment of) operating facility	4,304,274	-	(1,198,902)	-
Net cash from (used in) financing activities	(9,831,094)	(1,234,447)	(14,720,862)	13,142,128
Net increase (decrease) in cash and cash equivalents	(5,265,742)	(268,132)	380,431	3,374,658
Cash and cash equivalents, beginning of period	8,664,618	9,306,670	3,018,445	5,663,880
Cash and cash equivalents, end of period	\$ 3,398,876	\$ 9,038,538	\$ 3,398,876	\$ 9,038,538

See accompanying notes to unaudited condensed consolidated interim financial statements.

# Notes to the Condensed Consolidated Financial Statements

For the three and six-month periods ended June 30, 2015 and 2014

In Canadian dollars (*unaudited*)

## 1. Reporting Entity:

PHX Energy is a publicly-traded Corporation listed on the Toronto Stock Exchange under the symbol "PHX".

The Corporation, through its subsidiaries, provides horizontal and directional drilling services, as well as web-based remote electronic drilling recorder ("EDR") technology and services, to oil and natural gas exploration and development companies in Canada, United States, Albania, and Russia. The Corporation also develops and manufactures technologies that are made available for internal operational use.

The condensed consolidated interim financial statements include the accounts of the Corporation and its wholly owned subsidiaries.

## 2. Basis of Preparation:

### a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended December 31, 2014.

These condensed consolidated interim financial statements were authorized by the Board of Directors on August 5, 2015.

### b) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on a going concern basis and use the historical cost basis except for liabilities for cash-settled share-based payment arrangements which are measured at fair value and included in trade and other payables in the statement of financial position.

### **c) Functional and Presentation Currency**

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

### **d) Use of Estimates and Judgments**

The preparation of the condensed consolidated interim financial statements in conformity with International Financial Reporting Standards ("IFRS") requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2014.

## **3. Significant Accounting Policies:**

These condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2014.

## 4. Operating Segments:

The Corporation provides horizontal and directional drilling services as well as EDR services to the oil and natural gas exploration and development companies. PHX Energy's reportable segments have been aligned geographically as follows:

### Information about reportable segments

*(Stated in thousands of dollars)*

	Canada		United States		International		Total
Three-month periods ended June 30,	2015	2014	2015	2014	2015	2014	2015
Revenue	12,317	21,618	39,740	65,866	6,430	13,000	58,487
Reportable segment profit (loss) before income taxes	(5,545)	(6,701)	(4,694)	6,547	1,573	2,683	(8,666)
							2,529

*(Stated in thousands of dollars)*

	Canada		United States		International		Total
Six-month periods ended June 30,	2015	2014	2015	2014	2015	2014	2015
Revenue	49,820	80,249	99,976	123,308	12,618	26,058	162,414
Reportable segment profit (loss) before income taxes	(9,481)	3,106	(5,957)	11,611	2,756	5,291	(12,682)
							20,008

*(Stated in thousands of dollars)*

	Canada		United States		International		Total
As at June 30,	2015	2014	2015	2014	2015	2014	2015
Drilling and other equipment	161,475	104,933	14,031	47,846	16,046	18,201	191,552
Goodwill	16,230	31,230	-	-	-	-	16,230
							31,230

Reconciliation of reportable segment profit and other material items*(Stated in thousands of dollars)*

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2015	2014	2015	2014
Reportable segment profit (loss) before income taxes	(8,666)	2,529	(12,682)	20,008
Corporate:				
Selling, general and administrative expenses	626	2,901	2,166	6,499
Research and development expenses	316	660	1,175	1,497
Finance expense	1,003	862	2,132	1,892
Other income	(403)	(1,361)	(738)	(2,136)
Earnings (Loss) before income taxes	(10,208)	(533)	(17,417)	12,256

## 5. Seasonality of Operations:

A significant portion of the Corporation's operations are carried out in western Canada. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring break-up" has a direct impact on the Corporation's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen enough to support equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Corporation's least active time, and as such the operating results of the Corporation will vary on a quarterly basis.

## 6. Drilling and Other Equipment:

### a) Acquisitions and Disposals

During the six-month period ended June 30, 2015, the Corporation acquired assets with a cost of \$14.8 million (2014 - \$24.5 million).

Assets with a carrying amount of \$2.1 million (2014 - \$4.1 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of \$0.6 million (2014 - \$3.3 million), which is included in other income in the condensed consolidated statement of comprehensive income.

## b) Capital Commitments

As at June 30, 2015, the Corporation has commitments to purchase drilling and other equipment for \$3.1 million; delivery is expected to occur within the next quarter.

## 7. Intangible Assets:

During the six-month period ended June 30, 2015, the Corporation acquired intangible assets with a total cost of \$2.2 million (2014 - \$7.9 million), most of which related to development costs. An additional \$10.5 million and \$3.1 million, respectively, are estimated to be paid, contingent on the licensor and technology developer's successful completion of performance criteria set under the agreements.

As at June 30, 2015, the contingent liabilities arising from the agreements are as follows:

*(Stated in thousands of dollars)*

	2015	2016	2017	Total
License	5,500	5,000	-	10,500
Development costs	312	1,605	1,168	3,085
<b>Total</b>	<b>5,812</b>	<b>6,605</b>	<b>1,168</b>	<b>13,585</b>

## 8. Loans and Borrowings:

*(Stated in thousands of dollars)*

	Currency	Amount of Facility	Date of Maturity	Currency	Carrying Amount at June 30, 2015	Currency	Carrying Amount at December 31, 2014
Operating Facility	CAD	15,000	Due on demand	CAD	<b>4,304</b>	CAD	5,503
Syndicated Facility	CAD	160,000	December 12, 2018	CAD	<b>67,000</b>	CAD	95,000
US Operating Facility	USD	25,000	December 12, 2018	USD	-	USD	8,000

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at June 30, 2015 the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	As at June 30, 2015
Debt to EBITDA	< or = 3.00:1.00	<b>1.20</b>
Interest coverage ratio	> or = 3.00:1.00	<b>13.33</b>

In addition, the Corporation is also subject to a negative covenant which limits its annual dividends based on the amount of its yearly distributable cash flow, as defined in the credit agreement.

The amounts available to be drawn from PHX Energy's credit facilities are limited by the Corporation's borrowing base, which is \$151.5 million as at June 30, 2015. The Corporation had approximately CAD\$55.2 million and US\$25 million available to be drawn from its credit facilities as at June 30, 2015.

## 9. Share Capital:

### a) Authorized and Issued Shares

The Corporation is authorized to issue an unlimited number of shares.

	Number	Amount
Balance as at January 1, 2014	34,218,974	\$ 165,451,599
Issued shares pursuant to share option plan	774,302	10,289,836
Issued shares pursuant to DRIP	244,563	2,908,905
Balance as at December 31, 2014	35,237,839	\$ 178,650,340
Issued shares pursuant to DRIP	<b>115,407</b>	<b>745,398</b>
Issued shares pursuant to equity financing and private placement	<b>6,191,700</b>	<b>35,602,275</b>
Transaction costs		<b>(2,002,313)</b>
Tax effect of transaction costs		<b>560,462</b>
Balance as at June 30, 2015	<b>41,544,946</b>	<b>\$ 213,556,162</b>

On June 30, 2015, PHX Energy closed a bought deal financing for aggregate proceeds of \$35.0 million. An aggregate of 6,095,000 common shares of the Corporation were issued at a price of \$5.75 per common share. Concurrent with the closing of the public offering, certain directors and officers of PHX Energy and their associates purchased a total of 96,700 common shares at a price of \$5.75 per share on a private placement basis. The gross proceeds from the public offering and concurrent private placement totaled to approximately \$35.6 million.

## b) Dividends

The Corporation pays monthly cash dividends to its shareholders. During the six-month period ended June 30, 2015, the Corporation paid monthly dividends totaling \$10.5 million (2014 - \$14.5 million).

On February 25, 2015, the Board of Directors (the "Board") approved a 50 percent reduction in dividends from \$0.07 per share per month to \$0.035 per share per month which became effective for the March dividend. On May 6, 2015, the Corporation's Board of Directors approved a further 50 percent reduction to its dividend from \$0.035 per share per month to \$0.0175 per share per month which became effective for the Corporation's May dividend. On June 15, 2015, PHX Energy declared a dividend of \$0.0175 per share or \$0.7 million, payable on July 15, 2015. In aggregate, dividends of \$8.8 million (2014 - \$14.7 million) were declared for the six-month period ended June 30, 2015.

## 10. Other Income:

*(Stated in thousands of dollars)*

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2015	2014	2015	2014
Gain on disposition of drilling equipment	712	1,599	607	3,263
Foreign exchange gains (losses)	(271)	18	169	(392)
Provision for bad debts	(38)	(256)	(38)	(735)
Other Income	403	1,361	738	2,136

## 11. Income Taxes:

The Government of Alberta increased the corporate income tax rate from 10 percent to 12 percent, resulting in a blended corporate tax rate of 11 percent for the year ended December 31, 2015. This was substantively enacted in June, 2015.

## 12. Fair Values of Financial Instruments:

The Corporation has designated its trade and other payables and dividends payable as other financial liabilities carried at amortized cost. Trade and other receivables are designated as loans and receivables, measured at amortized cost. The Corporation's carrying values of these items approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings have been designated as other financial liability, and are measured at amortized cost. The fair value of loans and borrowings included in the condensed consolidated statement of financial position approximates fair values as the indebtedness is subject to floating rates of interest.

## 13. Contingent Liabilities:

- a) As previously announced, the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), has been named in a legal action in Houston, Texas. The claimants alleged that they were improperly classified as exempt under the Fair Labour Standards Act and therefore entitled to unpaid overtime.

On January 26, 2015, the action was conditionally certified as a collective action. On April 27, 2015, the 60-day opt in process was completed and Phoenix USA received the names of individuals who have elected to opt-into the lawsuit. Phoenix USA intends to vigorously defend against this action and based upon an assessment of the latest information available and certain assumptions the Corporation believes to be reasonable at this time, PHX Energy believes that the potential liability relating to this lawsuit is immaterial.

- b) On February 20, 2015, Phoenix USA was named in a second legal action in Houston, Texas commenced by two former consultants and joined by one consultant during the quarter (the "Claimants"), alleging that they were improperly classified as independent contractors (as opposed to employees) under the Fair Labor Standards Act and are entitled to unpaid overtime. Legal actions involving similar allegations have been filed in the United States against a number of other drilling companies.

The Claimants assert that a class of similarly situated individuals retained as consultants or contractors should be conditionally certified and notified of the lawsuit and allowed to join. However, no such motion to conditionally certify a class has been filed. Phoenix USA has filed a defense to the action and intends to vigorously defend the same including, without limitation, the conditional certification of the action. Based upon a preliminary assessment of information available and certain assumptions the Corporation believes to be reasonable at this time, PHX Energy currently does not believe this action to be material to the Corporation.

- c) On May 29, 2015, Phoenix USA was named in a legal action in Pittsburgh, Pennsylvania commenced by a former employee claiming that he was improperly classified as exempt under the Pennsylvania Minimum Wage Act ("PMWA") and therefore entitled to unpaid overtime. In this class action complaint, it was alleged that improper classification was imposed on similarly situated individuals (PMWA class members). Legal actions involving similar allegations have been filed in the United States against a number of other drilling companies.

Phoenix USA is still in the early stages of its investigation into the subject matter and facts. The Corporation has filed a defense to the action and intends to vigorously defend the same. Based on the recent filing of the lawsuit, the ongoing initial investigation, and the potential available defenses, PHX Energy has assessed that the amount of potential liability relating to this lawsuit is not yet determinable at this time.

# corporate information

## **Board of Directors**

John Hooks

Randolph ("Randy") M. Charron

J. Cameron Bailey

Myron Tétreault

Judith Athaide

Lawrence Hibbard

Roger Thomas

## **Officers**

John Hooks  
*CEO*

Michael Buker  
*President*

Cameron Ritchie  
*Sr. Vice President Finance and CFO*  
*Corporate Secretary*

Craig Brown  
*Sr. Vice President International Operations*  
*and Technology*

Daniel Blanchard  
*Vice President Executive Sales*

Jeffery Shafer  
*Vice President Sales and Marketing*

Quinten Bertelsen  
*Vice President Operations*

## **Legal Counsel**

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

## **Auditors**

KPMG LLP  
Calgary, Alberta

## **Bankers**

HSBC Bank Canada  
Calgary, Alberta

## **Transfer Agent**

Computershare Trust Company of Canada  
Calgary, Alberta

