



**Q1
2015**

Financial Highlights

In the first quarter of 2015, PHX Energy Services Corp. ("PHX Energy") experienced a significant decline in the demand for its services. These were as expected due to weak commodity prices that resulted in a general slowdown in industry activity and lower capital spending by Operators.

For the three-month period ended March 31, 2015, the Corporation generated consolidated revenue of \$103.9 million as compared to \$129.1 million in the 2014-period; a 20 percent decrease. This decline was largely the result of lower activity levels in the first quarter of 2015 as consolidated operating days decreased by 21 percent to 8,002 days as compared to 10,168 days in the 2014-quarter. As a result of decreased revenues, profitability declined. EBITDA decreased to \$3.2 million in the first quarter of 2015 compared to \$21.3 million in the 2014-quarter and the Corporation realized a net loss of \$5.9 million in the 2015-quarter compared to net earnings of \$8.8 million in the 2014-period. Stream Services ("Stream") generated a negative \$1.6 million in EBITDA in the first quarter of 2015.

During the first quarter of 2015, \$10.6 million in capital expenditures were incurred and an additional \$7.1 million is currently on order, which is expected to be received within the next quarter. A significant portion of the capital expenditures incurred related to orders placed in 2014 that were delivered in 2015. These amounts were predominantly related to strategic programs in progress, including the Velocity Real-Time guidance platform ("Velocity").

In the currently depressed industry environment, several cost-cutting initiatives have been necessary to preserve balance sheet strength, including the difficult decision to significantly reduce the Corporation's workforce for which \$2.6 million in severance costs were incurred during the 2015-quarter. These reductions were required to align PHX Energy's cost structure with activity levels. With lower activity levels believed to remain through most of 2015, further decreases in staff levels occurred in April and early May 2015. Presently, the Corporation employs 33 percent fewer staff than at the end of 2014, having laid off over 400 employees since December 31, 2014. The Corporation does not make these decisions lightly and Management is continually evaluating costs, utilization, and efficiencies throughout the entire business.

In the 2015-quarter, the Corporation paid dividends of \$7.4 million or \$0.21 per share. As previously announced, 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 payable on April 15, 2015. In order to better utilize and preserve funds from operations for future capital expenditures and maintain its balance sheet, the Corporation is announcing that the Board has approved a further 50 percent reduction in dividends from \$0.035 per share per month to \$0.0175 per share per month effective for the May dividend payable on June 15, 2015.

As at March 31, 2015, PHX Energy had long-term debt of \$112.7 million and working capital of \$78.9 million.

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

| | Three-month periods ended March 31, | | |
|--|-------------------------------------|--------------------|----------|
| | 2015 | 2014 | % Change |
| Operating Results | <i>(unaudited)</i> | <i>(unaudited)</i> | |
| Revenue | 103,928 | 129,131 | (20) |
| Net earnings (loss) | (5,898) | 8,813 | n.m. |
| Earnings (Loss) per share – diluted | (0.17) | 0.25 | n.m. |
| EBITDA ⁽¹⁾ | 3,224 | 21,271 | (85) |
| EBITDA per share – diluted ⁽¹⁾ | 0.09 | 0.61 | (85) |
| Cash Flow | | | |
| Cash flows from operating activities | 19,620 | 7,770 | 153 |
| Funds from operations ⁽¹⁾ | 3,299 | 20,515 | (84) |
| Funds from operations per share – diluted ⁽¹⁾ | 0.09 | 0.59 | (85) |
| Dividends paid | 7,407 | 7,195 | 3 |
| Dividends per share ⁽²⁾ | 0.21 | 0.21 | - |
| Capital expenditures | 10,604 | 13,456 | (21) |
| Financial Position (unaudited) | Mar 31, '15 | Dec 31, '14 | |
| Working capital | 78,882 | 80,974 | (3) |
| Long-term debt | 112,666 | 104,281 | 8 |
| Shareholders' equity | 199,485 | 199,961 | - |
| Common shares outstanding | 35,325,531 | 35,237,839 | - |

n.m. – not meaningful

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

Non-GAAP Measures

PHX Energy uses certain performance measures throughout this 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 the 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 first 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. This MD&A has been prepared taking into consideration information available up to and including May 6, 2015.

PHX Energy's Interim Financial Report for the three-month periods ended March 31, 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 May 6, 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:

- An additional \$7.1 million in capital expenditures are currently on order, which are expected to be received within the next quarter.
- Lower activity levels are believed to remain through most of 2015.
- Velocity is expected to be commercial in 2015.
- Going forward, the Corporation expects to minimize equipment rentals wherever possible.

- With the cost-cutting measures that were implemented in the middle to latter half of the first quarter, such as decreases to staff levels and compensation reductions, and with further initiatives that were completed in the second quarter, particularly reducing labor and equipment repair costs, Management expects that its cost structure will be better aligned with the current level of activity.
- It is anticipated that the consolidation of US coordinating and equipment servicing will be completed by the end of May, 2015.
- The Corporation believes the momentum gained in its gyro surveying division will continue throughout 2015.
- 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 Corporation's assessment of outstanding litigation 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) 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.; mainly in Albania and Mexico.

During the first 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, which is still in the latter phase of development and is expected to be commercial in 2015. As part of the development process, PHX Energy has been field testing a fleet of Velocity systems for clients across North America. Velocity is designed to improve reliability and provide innovative mechanical, directional, and formation measurements to enhance the drilling process.

Results of Operations

Three-month Period Ended March 31, 2015

Revenue

(Stated in thousands of dollars)

| | Three-month periods ended March 31, | | |
|---------|-------------------------------------|---------|----------|
| | 2015 | 2014 | % Change |
| Revenue | 103,928 | 129,131 | (20) |

Due to the overall slowdown in industry activity across all of the Corporation's operating segments as a result of lower commodity prices, consolidated revenue for the three-month period ended March 31, 2015 decreased by 20 percent to \$103.9 million compared to \$129.1 million in the comparable 2014-period. US and international revenue as a percentage of total consolidated revenue were 58 and 6 percent, respectively, for the 2015-quarter as compared to 44 and 10 percent in 2014. Consolidated operating days decreased by 21 percent to 8,002 days in 2015 as compared to 10,168 days in the 2014-quarter. Average consolidated day rates for the three-month period ended March 31, 2015, excluding the motor rental division in the US and the Stream division, increased slightly by 3 percent to \$12,541 from the day rates of \$12,206 in the first quarter of 2014. This increase was mainly due to the stronger US dollar in the 2015-quarter. Excluding the impact of the US foreign exchange, average consolidated day rates for the three-month period ended March 31, 2015 decreased by 4 percent to \$11,771.

During the 2015-quarter, both the Canadian and US industry experienced a significant decrease in drilling activity and the rig count has continued to contract in the second quarter. The overall number of rigs running per day in the first quarter declined approximately 21 percent in the US and approximately 40 percent in Canada. The majority of the drilling activity in the US and Canadian industry was related to horizontal wells. In the Canadian industry horizontal drilling days accounted for approximately 90 percent of activity and directional drilling days accounted for 4 percent of activity. Similarly in the US, active horizontal rigs running per day accounted for approximately 75 percent of activity and directional rigs running per day accounted for 9 percent of activity. (Sources: Daily Oil Bulletin and Baker Hughes)

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

| | Three-month periods ended March 31, | | |
|---|-------------------------------------|---------|----------|
| | 2015 | 2014 | % Change |
| Direct costs | 96,915 | 100,644 | (4) |
| Depreciation & amortization (included in direct costs) | 9,305 | 7,451 | 25 |
| Gross profit as percentage of revenue excluding depreciation & amortization | 16% | 28% | |

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 March 31, 2015 as compared to 28 percent in the comparable 2014-period.

Profitability in the three-month period ended March 31, 2015 was negatively affected mainly by the following factors:

- weak activity levels in all operating segments,
- severance payments of \$1.7 million, and
- a cost structure that was built to sustain higher levels of activity realized in the prior periods.

For the three-month period ended March 31, 2015, the Corporation's third party equipment rentals increased to 5 percent of consolidated revenue compared to 3 percent in the corresponding 2014-quarter, which also impacted profitability. Going forward, the Corporation expects to minimize these rentals wherever possible.

Depreciation and amortization for the three-month period ended March 31, 2015 increased by 25 percent to \$9.3 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.

With the cost-cutting measures that were implemented in the middle to latter half of the first quarter, such as decreases to staff levels and compensation reductions, and with further initiatives that were completed in the second quarter, particularly reducing labor and equipment repair costs, Management expects that its cost structure will be better aligned with the current level of activity. Due to the timing of PHX Energy's cost-cutting initiatives, the full impact of these cuts were not realized in the first quarter of 2015.

(Stated in thousands of dollars except percentages)

| | Three-month periods ended March 31, | | |
|---|-------------------------------------|--------|----------|
| | 2015 | 2014 | % Change |
| Selling, general & administrative ("SG&A") costs | 12,569 | 14,605 | (14) |
| Equity-settled share-based payments (included in SG&A costs) | 200 | 210 | (5) |
| SG&A costs excluding equity-settled share-based payments as a percentage of revenue | 12% | 11% | |

SG&A costs for the three-month period ended March 31, 2015 decreased by 14 percent to \$12.6 million as compared to \$14.6 million in 2014. Included in SG&A costs for both the 2015 and 2014-quarter are equity-settled share-based payments of \$0.2 million. Excluding these costs, SG&A costs as a percentage of consolidated revenue for the three-month periods ended March 31, 2015 and 2014 were 12 percent and 11 percent, respectively. Included in SG&A costs for the three-month period March 31, 2015 are severance costs of \$0.9 million and other non-recurring charges.

The decrease in SG&A costs, in dollar terms, in the 2015-period was mainly due to reduced personnel and marketing related costs associated with overall decreased 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-month period ended March 31, 2015, equity-settled share-based payments decreased slightly by 5 percent as compared to the corresponding 2014-period.

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 \$0.5 million as compared to \$1.0 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 \$7.48 as at December 31, 2014 to \$7.03 as at March 31, 2015.

(Stated in thousands of dollars)

| | Three-month periods ended March 31, | | |
|--------------------------------|-------------------------------------|------|----------|
| | 2015 | 2014 | % Change |
| Research & development expense | 859 | 837 | 3 |

Research and development ("R&D") expenditures charged to net earnings during the three-month period ended March 31, 2015 were \$0.9 million, which is relatively consistent with the 2014-quarter's expenditures of \$0.8 million. During both the 2015 and 2014-quarter, none of the R&D expenditures were capitalized as development costs.

The Corporation has been, and will continue to examine all of its projects to determine which have the most impact on profitability going forward.

(Stated in thousands of dollars)

| | Three-month periods ended March 31, | | |
|-----------------|-------------------------------------|-------|----------|
| | 2015 | 2014 | % Change |
| Finance expense | 1,129 | 1,030 | 10 |

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. Finance charges increased to \$1.1 million in the first quarter of 2015 from \$1.0 million in the 2014-quarter. The increase was primarily due to the higher amount of borrowings outstanding during the three-month period ended March 31, 2015.

(Stated in thousands of dollars)

| | Three-month periods ended March 31, | |
|---|-------------------------------------|-------|
| | 2015 | 2014 |
| Foreign exchange gains (losses) | 440 | (409) |
| Gains (Loss) on disposition of drilling equipment | (105) | 1,664 |
| Provision for bad debts | - | (480) |
| Other income | 335 | 775 |

For the three-month period ended March 31, 2015, other income pertained primarily to foreign exchange gains of \$0.4 million (2014 - losses of \$0.4 million), which resulted mainly from the positive impact of the stronger US dollar on Canadian-denominated intercompany payables in the US.

Offsetting other income for the three-month period ended March 31, 2015 is a net loss on the disposition of drilling equipment of \$105,000 (2014 - net gain of \$1.7 million). The dispositions of drilling equipment relate primarily to equipment lost in well bores that are uncontrollable in nature. The loss reported in the 2015-quarter pertained mainly to 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 in the first quarter of 2015 compared to the 2014-period. The loss was partially offset by gains that 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.

(Stated in thousands of dollars, except percentages)

| | Three-month periods ended March 31, | |
|--|-------------------------------------|-------|
| | 2015 | 2014 |
| Provision for (Recovery of) income taxes | (1,312) | 3,977 |
| Effective tax rates | 18% | 31% |

The recovery of income taxes for the three-month period ended March 31, 2015 was \$1.3 million as compared to a provision for income taxes of \$4.0 million in the 2014-quarter. The expected combined Canadian federal and provincial tax rate for 2015 is 25 percent. The effective tax rate in the 2015-quarter is lower than the expected rate primarily due to the effect of lower tax rates in the foreign jurisdictions.

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

| | Three-month periods ended March 31, | |
|-------------------------------------|-------------------------------------|--------|
| | 2015 | 2014 |
| Net earnings (loss) | (5,898) | 8,813 |
| Earnings (Loss) per share – diluted | (0.17) | 0.25 |
| EBITDA | 3,224 | 21,271 |
| EBITDA per share – diluted | 0.09 | 0.61 |
| EBITDA as a percentage of revenue | 3% | 16% |

n.m. - not meaningful

In the three-month period ended March 31, 2015, the Corporation's level of net earnings and EBITDA have both decreased primarily as a result of weaker levels of activity. EBITDA as a percentage of revenue for the three-month period ended March 31, 2015 was 3 percent (2014 - 16 percent). Included in the net loss for the 2015-quarter were losses of \$2.1 million from the Stream division (2014 - losses of \$0.7 million). The increase in the Stream division's losses were mainly due to severance costs incurred during the 2015-quarter.

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 March 31, | | |
|--|-------------------------------------|--------|----------|
| | 2015 | 2014 | % Change |
| Revenue | 37,503 | 58,631 | (36) |
| Reportable segment profit (loss) before tax | (3,937) | 9,807 | n.m. |
| Reportable segment profit (loss) before tax as a percentage of revenue | (10%) | 17% | |

n.m. - not meaningful

Canadian revenue for the three-month period ended March 31, 2015 decreased by 36 percent to \$37.5 million from \$58.6 million in the corresponding 2014-period. The decrease was largely driven by lower activity levels, with the Canadian segment reporting 3,536 operating days in the 2015-quarter, a 32 percent decrease compared to 5,237 days in the 2014-period. In comparison, total industry horizontal and directional drilling activity, as measured by drilling days, declined 35 percent in the 2015-quarter to 24,245 days from 37,377 days in the 2014-quarter. (Source: Daily Oil Bulletin) Average day rates, excluding Stream revenue of \$0.7 million, decreased by 4 percent to \$10,415 in the 2015-quarter from \$10,817 in the 2014-quarter.

During the 2015-quarter, the Canadian division had a very strong presence in the Montney, and as was the case in the 2014-quarter, oil and natural gas drilling represented approximately equal portions of activity in 2015. Other areas where the Corporation was active during the quarter were the Shaunavon, Bakken, Lloydminster, Cardium and Viking areas.

Reportable segment profit before tax for the first quarter of 2015 decreased to a loss of \$3.9 million from an income of \$9.8 million (17 percent of revenue) in the 2014-quarter. Included in the Canadian segment's losses in the 2015-quarter was a loss of \$2.8 million from the Stream division. Lower profitability during the 2015 three-month period was generally due to weak activity levels, the cost structure that was built up to support record activity in 2014, and severance costs incurred as a result of personnel reductions implemented to balance employee levels with current activity levels.

United States

(Stated in thousands of dollars, except percentages)

| | Three-month periods ended March 31, | |
|--|-------------------------------------|--------|
| | 2015 | 2014 |
| Revenue | 60,236 | 57,442 |
| Reportable segment profit (loss) before tax | (1,262) | 5,063 |
| Reportable segment profit (loss) before tax as a percentage of revenue | (2%) | 9% |

For the three-month period ended March 31, 2015, the US segment's revenue was \$60.2 million, which is 5 percent higher than the revenue of \$57.4 million in the 2014-period. PHX Energy's US operating days decreased by 4 percent from 3,910 days in the 2014-quarter to 3,757 days in the 2015-quarter. Average day rates, excluding the motor rental division in Midland, Texas and the Rocky Mountain region, increased by 10 percent in the 2015-quarter to \$15,259 compared to \$13,914 in the 2014-quarter. This increase was mainly due to the US dollar which continued to strengthen in the 2015-quarter. Excluding the effects of foreign exchange, the average day rates decreased slightly by 2 percent to \$13,620 in the 2015-quarter.

Horizontal and directional drilling represented 85 percent of the average number of horizontal and directional rigs running on a daily basis in the first quarter of 2015 which was 6 percent greater than the percentage in 2014. However, the actual number of horizontal and directional rigs running per day was down 15 percent, with an average of 1,186 horizontal and directional rigs running on a daily basis during the 2015-quarter compared to the 1,393 rigs in the 2014-quarter. (Source: Baker Hughes). For the three-month period ended March 31, 2015, oil well drilling, as measured by wells drilled and excluding the motor rental and gyro surveying divisions, increased to 65 percent of PHX Energy's US activity (2014 - 49 percent). During the first quarter of 2015, Phoenix USA remained active in the Permian, Eagle Ford, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins.

Reportable segment profit before tax for the three-month period ended March 31, 2015 decreased to a loss of \$1.3 million from a profit of \$5.1 million (9 percent of revenue) in the 2014-quarter. Decreased profitability in the 2015-period was mainly the result of weaker activity levels, increased equipment rentals, and severance costs incurred in the 2015-quarter.

In order to reduce cost, PHX Energy has recently consolidated all US coordinating and equipment servicing and is re-locating the Casper, Wyoming and Traverse City, Michigan facilities to smaller staging areas that are closer to the drilling activity in these regions. PHX Energy will remain active and will continue to market its services to the Northeast and Rocky Mountain regions of the US and will support the operations in these regions from its Houston facility. It is anticipated that this transition will be completed by the end of May, 2015.

Activity related to the motor rental business operated in Gulf Coast and Rocky Mountain regions has remained steady through the downturn. Additionally the new gyro surveying division which became operational in October, 2014 in the Permian basin is continuing to grow and PHX Energy added additional capacity to this division to meet demand for services. The Corporation believes the momentum gained with this service offering will continue throughout 2015.

International

(Stated in thousands of dollars, except percentages)

| | Three-month periods ended March 31, | | |
|---|-------------------------------------|--------|----------|
| | 2015 | 2014 | % Change |
| Revenue | 6,189 | 13,058 | (53) |
| Reportable segment profit before tax | 1,183 | 2,607 | (55) |
| Reportable segment profit before tax as a percentage of revenue | 19% | 20% | |

During the first quarter of 2015, the international operations were impacted by a drop in drilling activity across all regions and a decline in the value of the Russian ruble. For the three-month period ended March 31, 2015, PHX Energy's international operations generated revenue of \$6.2 million, 53 percent lower than the \$13.1 million generated in the 2014-period. International operating days decreased by 31 percent from 1,021 days in the 2014-quarter to 709 days in the 2015-quarter. The Corporation generated 6 percent of its consolidated revenue from its international operations in the 2015-quarter compared to 10 percent in the 2014-quarter.

Phoenix Albania's operations were dramatically reduced in the 2015-quarter as Operators reduced their drilling budgets in response to falling commodity prices. For the three-month period ended March 31, 2015, Phoenix Albania's activity decreased by 42 percent as compared to the corresponding 2014-period. In response to the reduced activity levels, the Corporation has taken various cost-cutting measures, including staff reductions. PHX Energy is continuing its sales and marketing efforts throughout Eastern Europe.

Russian operations were impacted in the 2015-quarter by a devalued ruble, reduced commodity prices, and international sanctions which resulted in lower activity levels. In the first quarter of 2015, Phoenix Russia's operating days decreased by 17 percent as compared to the 2014-period. During the 2015-quarter, the Russian operations were successful in adding to its client base and continues its marketing efforts to expand its customer base further in Russia.

Reportable segment profit from international operations for the three-month period ended March 31, 2015 was \$1.2 million, which is 55 percent lower than the \$2.6 million profit in the corresponding 2014-period. The decrease in the international operations' profitability is mainly due to weaker activity levels.

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

| | Mar-15 | Dec-14 ⁽¹⁾ | Sept-14 | Jun-14 | Mar-14 | Dec-13 ⁽²⁾ | Sept-13 ⁽³⁾ | Jun-13 |
|-------------------------------------|----------------|-----------------------|---------|---------|---------|-----------------------|------------------------|---------|
| Revenue | 103,928 | 152,881 | 138,971 | 100,484 | 129,131 | 115,543 | 106,971 | 65,483 |
| Net earnings (loss) | (5,898) | 16,220 | 13,024 | (1,062) | 8,813 | 7,501 | 9,786 | (4,735) |
| Earnings (Loss) per share – basic | (0.17) | 0.46 | 0.37 | (0.03) | 0.26 | 0.23 | 0.34 | (0.16) |
| Earnings (Loss) per share – diluted | (0.17) | 0.46 | 0.37 | (0.03) | 0.25 | 0.23 | 0.34 | (0.16) |
| EBITDA | 3,224 | 29,040 | 25,551 | 7,809 | 21,271 | 17,611 | 20,623 | 367 |
| EBITDA per share - diluted | 0.09 | 0.82 | 0.72 | 0.22 | 0.61 | 0.54 | 0.71 | 0.01 |

⁽¹⁾ Excludes impairment loss on goodwill.

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

⁽³⁾ 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 March 31, | |
|-----------------------|-------------------------------------|--------------|
| | 2015 | 2014 |
| Funds from operations | 3,299 | 20,515 |
| | | |
| | March 31, '15 | Dec. 31, '14 |
| Working capital | 78,882 | 80,974 |

Funds from operations decreased from \$20.5 million in the 2014-quarter to \$3.3 million in the three-month period ended March 31, 2015. The decrease in funds from operations was generally due to slower activity levels and reduced profitability that resulted from weak commodity prices.

As at March 31, 2015, the Corporation had working capital of \$78.9 million, which was \$2.1 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 the end of the 2015-quarter that resulted primarily from decreased revenues realized during the 2015-period. As at March 31, 2015, the Corporation had CAD\$75 million and US\$15 million available to be drawn from its credit facilities.

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.

For the three-month period ended March 31, 2015, dividends of \$7.4 million (2014 – \$7.2 million) were financed mainly from the Corporation's cash flow from operations.

As previously announced, 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 payable on April 15, 2015. In order to better utilize and preserve funds from operations and maintain its balance sheet, the Board has approved a further 50 percent reduction in dividends from \$0.035 per share per month to \$0.0175 per share per month effective for the May dividend payable on June 15, 2015.

Investing Activities

Net cash used in investing activities for the three-month period ended March 31, 2015 was \$9.1 million as compared to \$18.5 million in 2014. In the first quarter of 2015, PHX Energy added \$9.5 million, net, in capital equipment (2014 - \$10.3 million). The capital equipment amounts are net of proceeds from the involuntary disposal of drilling equipment in well bores of \$1.1 million (2014 - \$3.1 million). The quarterly 2015 expenditures included:

- \$3.7 million in MWD systems and spare components;
- \$3.3 million in down hole performance drilling motors;
- \$2.1 million in machinery and equipment;
- \$0.6 million in gyro surveying equipment; and
- \$0.9 million in other assets, including \$0.3 million in leasehold improvements and \$0.2 million in non-magnetic drill collars and jars.

The capital expenditure program undertaken in the period was largely the result of orders made in 2014, with deliveries carried over into 2015, and was financed from a combination of long-term debt and working capital.

During the 2015-quarter, the Corporation spent \$1.0 million in development costs. The change in non-cash working capital balances of \$1.4 million (source of cash) for the three-month period ended March 31, 2015, relates to the net change in the Corporation’s trade payables that are associated with the acquisition of capital assets. This compares to \$0.7 million (use of cash) for the three-month period ended March 31, 2014.

Financing Activities

The Corporation reported cash flows used in financing activities of \$4.9 million in the three-month period ended March 31, 2015 as compared to cash flows from financing activities of \$14.4 million in the 2014-period. In the 2015-quarter:

- the Corporation paid dividends of \$7.4 million to shareholders, or \$0.21 per share;
- through its DRIP program, the Corporation received cash proceeds of \$0.6 million from reinvested dividends to acquire 87,692 common shares of the Corporation; and
- the Corporation received net proceeds from its syndicated facility in an aggregate of \$2.0 million to finance its capital expenditure program.

Capital Resources

As at March 31, 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 March 31, 2015, the Corporation had nil drawn on this facility.

As at March 31, 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 March 31, 2015, CAD\$100 million was drawn on the syndicated facility and US\$10 million was 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 March 31, 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 \$16.0 million to \$19.6 million due primarily to orders made in 2014 where the delivery carried over into 2015. 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 March 31, 2015.

(Stated in thousands of dollars)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------------|--------|-------|-------|---------|-------|
| Loans and borrowings | - | - | - | 112,666 | - |
| Drilling and other equipment | 7,080 | - | - | - | - |
| Operating leases | 6,549 | 5,397 | 5,069 | 4,978 | 4,825 |
| Finance leases | 195 | - | - | - | - |
| Trade and other payables | 51,049 | - | - | - | - |
| Dividends payable | 1,236 | - | - | - | - |
| Total | 66,109 | 5,397 | 5,069 | 117,644 | 4,825 |

Contingent Liability

- 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. Subsequent to March 31, 2015, 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 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, the Corporation's wholly-owned subsidiary, Phoenix USA, was named in a second legal action in Houston, Texas commenced by two former consultants (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.

Phoenix USA is still in the early stages of its investigation into the subject matter and facts. 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 intends to file a defense to the action and vigorously defend the same including, without limitation, the conditional certification of the action. Based upon the recent filing of the lawsuit, the ongoing initial investigation, and the potential available defenses, PHX Energy currently does not believe this action to be material to the Corporation.

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 March 31, 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.

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 January 1, 2015 and ending on March 31, 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

| (In thousands of shares) | As at May 6, 2015 |
|------------------------------|-------------------|
| Common shares outstanding | 35,339,710 |
| Dilutive securities: | |
| Options | 2,736,697 |
| Corporation shares – diluted | 38,076,407 |

Outlook

PHX Energy is faced with many challenges in the upcoming quarters, however, is taking proactive measures in order to accomplish two key strategic objectives. The first is to be in the strongest possible position given the difficult market conditions in the oil and natural gas service sector. The second is to position the Corporation as a leaner and more efficient organization that offers significant competitive differentiators when it emerges from the current downturn; ultimately, allowing the Corporation to capture even greater market share while improving its operating margins.

As predicted, the first quarter of 2015 proved to be a transitional quarter for both the industry and PHX Energy. Entering 2015, the Corporation had delivered record quarterly revenue results for 20 consecutive quarters, unfortunately, this trend ended in 2015. The current overall rig count in North America has contracted to a 6 year low, with less than 100 rigs working in Canada and less than 1,000 rigs in the US. This is a 50 percent decrease from the activity levels that were experienced last year at this time. The resulting shock to the industry has been significant.

PHX Energy has not only suffered through the effects of the decline in drilling activity, the Corporation is currently facing increased pressure from its clients to lower the rates charged for services which has further eroded margins. PHX Energy believes the collapse in activity and the decreased day rates is the worst environment it has experienced since the late 1990's.

The Corporation's international operations are being impacted similarly with significant reductions in rig counts as PHX Energy's international clients have also cut their capital expenditures to cope with lower commodity prices.

PHX Energy has taken swift and decisive action to soften the effects of the drop in active drilling rigs. In the middle of the first quarter, the Corporation initiated cost-cutting measures in all areas of its operations and is continually evaluating all aspects of its business to improve the cost structure and create efficiencies. Compensation reductions for all staff were put in place in the first quarter and an employee lay off process has reduced PHX Energy's current work force by approximately 33 percent. The Management team has halted all capital expenditures with the exception of those deemed critical to achieving its strategic objective to develop a differentiated service offering and the Corporation has aggressively negotiated improved pricing from its suppliers. Additionally, the Corporation is in the process of consolidating its US operations and is down-sizing its facilities in the Northeast and Rocky Mountain regions from full service facilities to strategically placed staging areas. Its Houston facility will support all US activity. As a result of the deteriorating industry conditions and the desire to maintain a strong balance sheet the Board of Directors has approved a 50 percent decrease to the monthly dividend from \$0.035 per share per month to \$0.0175 per share per month effective for the May dividend payable June 15, 2015.

PHX Energy has an extremely strong strategic focus on differentiating the Corporation from its competitors through deploying advanced technology to the well site, developing the technical expertise of its field personnel and delivering analytical information to clients that allows them to optimize the efficiency of their drilling programs and the speed at which they drill wells. PHX Energy has been developing its Velocity system, an industry leading measurement while drilling platform, for close to 2 years and is working toward commercializing this technology in 2015 with this being the largest portion of the 2015 capital expenditure budget.

PHX Energy believes the recovery of the industry will only be seen when there is an impactful reduction to the amount of crude oil produced in the US. The nearly 70 percent increase in production of crude oil (tight oil in particular) in the US from roughly 5.5 million barrels per day in 2010 to roughly 9.2 million barrels per day in 2015 is the direct result of the proliferation of horizontal drilling and multi-stage hydraulic fracturing. Since the fourth quarter of 2014, the oil focused rig count in the US has dropped by approximately 60 percent from approximately 1,600 rigs in October 2014 to approximately 700 rigs in April 2015. Due to the accelerated decline rates on a typical tight oil well, the drop in rig count will relatively quickly result in a drop in oil production. PHX Energy anticipates this will occur in the second half of this year. With the prospect of decreasing production on the horizon, the Corporation expects the price of West Texas Intermediate will continue to slowly trend upward as the remainder of the year progresses.

Although this has been one of the most difficult quarters in PHX Energy's history and the Corporation foresees challenging quarters ahead, PHX Energy has positioned itself with a cost structure that it believes can be sustained in this weaker period. The Corporation's dedication to executing on its strategy to develop industry leading technology and offer a level of service that is well beyond what our competitors can provide, will propel continued market share growth and margin improvements as we rebound from the depressed industry that exists today.



Michael Baker
President
May 6, 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 March 31, | |
|--|-------------------------------------|---------------|
| | 2015 | 2014 |
| Net earnings (loss) | (5,898) | 8,813 |
| Add: | | |
| Depreciation and amortization | 9,305 | 7,451 |
| Provision for (Recovery of) income taxes | (1,312) | 3,977 |
| Finance expense | 1,129 | 1,030 |
| EBITDA as reported | 3,224 | 21,271 |

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

2) Funds from Operations

Funds from operations is defined as cash flows generated from operating activities before changes in non-cash working capital. This is not a measure recognized under GAAP. Management uses funds from operations as an indication of the Corporation's ability to generate funds from its operations before considering changes in working capital balances and interest and taxes paid. Investors should be cautioned, however, that this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. PHX Energy's method of calculating funds from operations may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

| | Three-month periods ended March 31, | |
|--------------------------------------|-------------------------------------|--------|
| | 2015 | 2014 |
| Cash flows from operating activities | 19,620 | 7,770 |
| Add: | | |
| Changes in non-cash working capital | (18,630) | 11,624 |
| Interest paid | 983 | 735 |
| Income taxes paid | 1,326 | 386 |
| Funds from operations | 3,299 | 20,515 |

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 and unrealized foreign exchange losses.

Condensed Consolidated Statements of Financial Position

(unaudited)

| | March 31, 2015 | December 31, 2014 |
|---|----------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,664,618 | \$ 3,018,445 |
| Trade and other receivables | 81,049,504 | 122,272,125 |
| Inventories | 35,986,306 | 32,423,158 |
| Prepaid expenses | 5,661,767 | 4,505,300 |
| Total current assets | 131,362,195 | 162,219,028 |
| Non-current assets: | | |
| Drilling and other equipment (Note 6) | 198,486,023 | 190,891,854 |
| Goodwill | 16,229,756 | 16,229,756 |
| Intangible assets | 26,219,245 | 25,581,960 |
| Total non-current assets | 240,935,024 | 232,703,570 |
| Total assets | \$ 372,297,219 | \$ 394,922,598 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Operating facility | \$ - | \$ 5,503,176 |
| Trade and other payables | 51,048,899 | 72,203,463 |
| Dividends payable (Note 9b) | 1,236,394 | 2,466,649 |
| Current tax liabilities | - | 832,352 |
| Current portion of finance leases | 195,256 | 238,911 |
| Total current liabilities | 52,480,549 | 81,244,551 |
| Non-current liabilities: | | |
| Loans and borrowings (Note 8) | 112,666,000 | 104,280,800 |
| Deferred tax liabilities | 5,865,978 | 7,602,868 |
| Deferred income | 1,800,002 | 1,833,335 |
| Total non-current liabilities | 120,331,980 | 113,717,003 |
| Equity: | | |
| Share capital (Note 9a) | 179,214,055 | 178,650,340 |
| Contributed surplus | 4,713,664 | 4,513,265 |
| Retained earnings | 4,787,377 | 16,861,918 |
| Accumulated other comprehensive income | 10,769,594 | (64,479) |
| Total equity | 199,484,690 | 199,961,044 |
| Total liabilities and equity | \$ 372,297,219 | \$ 394,922,598 |

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

| | Three-month periods ended March 31, | |
|--|-------------------------------------|----------------|
| | 2015 | 2014 |
| Revenue | \$ 103,927,689 | \$ 129,130,510 |
| Direct costs | 96,915,381 | 100,643,812 |
| Gross profit | 7,012,308 | 28,486,698 |
| Expenses: | | |
| Selling, general and administrative expenses | 12,569,222 | 14,604,626 |
| Research and development expenses | 858,582 | 837,244 |
| Finance expense | 1,129,179 | 1,030,297 |
| Other income (Note 10) | (335,117) | (775,246) |
| | 14,221,866 | 15,696,921 |
| Earnings (Loss) before income taxes | (7,209,558) | 12,789,777 |
| Provision for (Recovery of) income taxes | | |
| Current | 422,049 | 659,665 |
| Deferred (Recovery) | (1,734,062) | 3,317,010 |
| | (1,312,013) | 3,976,675 |
| Net earnings (loss) | (5,897,545) | 8,813,102 |
| Other comprehensive income | | |
| Foreign currency translation | 10,834,073 | 1,425,724 |
| Total comprehensive income for the period | \$ 4,936,528 | \$ 10,238,826 |
| Earnings (Loss) per share – basic | \$ (0.17) | \$ 0.26 |
| Earnings (Loss) per share – diluted | \$ (0.17) | \$ 0.25 |

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

| Three-month period ended March 31, 2015 | Share Capital | | Contributed Surplus | Accumulated Other Comprehensive Income | Retained Earnings | Total Equity |
|--|-------------------|-----------------------|---------------------|--|---------------------|-----------------------|
| | 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 | 87,692 | 563,715 | - | - | - | 563,715 |
| Share-based payments | - | - | 200,399 | - | - | 200,399 |
| Net earnings (loss) | - | - | - | - | (5,897,545) | (5,897,545) |
| Foreign currency translation | - | - | - | 10,834,073 | - | 10,834,073 |
| Dividends | - | - | - | - | (6,176,996) | (6,176,996) |
| Balance, March 31, 2015 | 35,325,531 | \$ 179,214,055 | \$ 4,713,664 | \$ 10,769,594 | \$ 4,787,377 | \$ 199,484,690 |

| Three-month period ended March 31, 2014 | Share Capital | | Contributed Surplus | Accumulated Other Comprehensive Income | Retained Earnings | Total Equity |
|--|-------------------|-----------------------|---------------------|--|----------------------|-----------------------|
| | 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 | 162,826 | 1,623,315 | - | - | - | 1,623,315 |
| Share-based payments | - | - | 209,992 | - | - | 209,992 |
| Fair value of options exercised | - | 402,099 | (402,099) | - | - | - |
| Net earnings | - | - | - | - | 8,813,102 | 8,813,102 |
| Foreign currency translation | - | - | - | 1,425,724 | - | 1,425,724 |
| Dividends | - | - | - | - | (7,179,820) | (7,179,820) |
| Balance, March 31, 2014 | 34,381,800 | \$ 167,477,013 | \$ 6,169,603 | \$ 3,804,743 | \$ 25,917,972 | \$ 203,369,331 |

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

| | Three-month periods ended March 31, | |
|---|-------------------------------------|---------------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net earnings (loss) | \$ (5,897,545) | \$ 8,813,102 |
| Adjustments for: | | |
| Depreciation and amortization | 9,304,570 | 7,451,072 |
| Provision for (Recovery of) income taxes | (1,312,013) | 3,976,675 |
| Unrealized foreign exchange loss (gain) | (1,175,152) | 251,833 |
| Loss (Gain) on disposition of drilling equipment | 105,023 | (1,664,149) |
| Equity-settled share-based payments | 200,399 | 209,992 |
| Finance expense | 1,129,179 | 1,030,297 |
| Provision for bad debts | - | 479,539 |
| Amortization of deferred income | (33,333) | (33,333) |
| Other non-cash charges | 977,973 | - |
| <u>Change in non-cash working capital</u> | <u>18,629,819</u> | <u>(11,623,068)</u> |
| Cash generated from operating activities | 21,928,920 | 8,891,960 |
| Interest paid | (983,533) | (735,163) |
| Income taxes paid | (1,325,863) | (386,321) |
| <u>Net cash from operating activities</u> | <u>19,619,524</u> | <u>7,770,476</u> |
| Cash flows from investing activities: | | |
| Proceeds on disposition of drilling equipment | 1,065,836 | 3,111,596 |
| Acquisition of drilling and other equipment | (10,603,554) | (13,456,273) |
| Acquisition of intangible assets | (969,203) | (7,448,272) |
| <u>Change in non-cash working capital</u> | <u>1,423,338</u> | <u>(711,312)</u> |
| <u>Net cash used in investing activities</u> | <u>(9,083,583)</u> | <u>(18,504,261)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of share capital | 563,715 | 1,623,315 |
| Dividends paid to shareholders | (7,407,252) | (7,194,708) |
| Proceeds on loans and borrowings | 7,500,600 | 20,000,000 |
| Payments under finance leases | (43,655) | (52,032) |
| <u>Repayment of operating facility</u> | <u>(5,503,176)</u> | <u>-</u> |
| <u>Net cash from (used in) financing activities</u> | <u>(4,889,768)</u> | <u>14,376,575</u> |
| Net increase in cash and cash equivalents | 5,646,173 | 3,642,790 |
| Cash and cash equivalents, beginning of period | 3,018,445 | 5,663,880 |
| <u>Cash and cash equivalents, end of period</u> | <u>\$ 8,664,618</u> | <u>\$ 9,306,670</u> |

See accompanying notes to unaudited condensed interim financial statements.

Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 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 May 6, 2015.

b) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on a going concern basis and using 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)

| Three-month periods ended March 31, | Canada | | United States | | International | | Total | |
|--|---------|--------|---------------|--------|---------------|--------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenue | 37,503 | 58,631 | 60,236 | 57,442 | 6,189 | 13,058 | 103,928 | 129,131 |
| Reportable segment profit (loss) before income taxes | (3,937) | 9,807 | (1,262) | 5,063 | 1,183 | 2,607 | (4,016) | 17,477 |

(Stated in thousands of dollars)

| As at March 31, | Canada | | United States | | International | | Total | |
|------------------------------|---------|---------|---------------|--------|---------------|--------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Drilling and other equipment | 167,077 | 101,025 | 14,397 | 52,030 | 17,012 | 18,607 | 198,486 | 171,662 |
| 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 March 31, | |
|--|-------------------------------------|--------|
| | 2015 | 2014 |
| Reportable segment profit (loss) before income taxes | (4,016) | 17,477 |
| Corporate: | | |
| Selling, general and administrative expenses | 1,541 | 3,595 |
| Research and development expenses | 859 | 837 |
| Finance expense | 1,129 | 1,030 |
| Other income | (335) | (775) |
| Earnings (Loss) before income taxes | (7,210) | 12,790 |

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 three-month period ended March 31, 2015, the Corporation acquired assets with a cost of \$10.6 million (2014 - \$13.5 million).

Assets with a carrying amount of \$1.2 million (2014 - \$1.4 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net loss on disposition of \$105,000 (2014 – \$1.7 million gain), which is included in other income in the condensed consolidated statement of comprehensive income.

b) Capital Commitments

As at March 31, 2015, the Corporation has commitments to purchase drilling and other equipment for \$7.1 million; delivery is expected to occur within the next quarter.

7. Intangible Assets:

During the three-month period ended March 31, 2015, the Corporation acquired intangible assets with a total cost of \$1.0 million (2013 - \$7.4 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 March 31, 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 | 1,311 | 950 | 868 | 3,129 |
| Total | 6,811 | 5,950 | 868 | 13,629 |

8. Loans and Borrowings:

(Stated in thousands of dollars)

| | Currency | Amount of Facility | Date of Maturity | Currency | Carrying Amount at March 31, 2015 | Currency | Carrying Amount at December 31, 2014 |
|-----------------------|----------|--------------------|-------------------|----------|-----------------------------------|----------|--------------------------------------|
| Operating Facility | CAD | 15,000 | Due on demand | CAD | - | CAD | 5,503 |
| Syndicated Facility | CAD | 160,000 | December 12, 2018 | CAD | 100,000 | CAD | 95,000 |
| US Operating Facility | USD | 25,000 | December 12, 2018 | USD | 10,000 | USD | 8,000 |

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at March 31, 2015 the Corporation was in compliance with all its financial covenants as follows:

| Ratio | Covenant | As at March 31, 2015 |
|-------------------------|------------------|----------------------|
| Debt to EBITDA | < or = 3.00:1.00 | 1.69 |
| Interest coverage ratio | > or = 3.00:1.00 | 15.35 |

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 | 87,692 | 563,715 |
| Balance as at March 31, 2015 | 35,325,531 | \$ 179,214,055 |

b) Dividends

The Corporation pays monthly cash dividends to its shareholders. During the three-month period ended March 31, 2015, the Corporation paid monthly dividends totaling \$7.4 million (2014 - \$7.2 million).

As previously announced, the Corporation's Board of Directors approved a 50 percent reduction to its dividend from \$0.07 per share per month to \$0.035 per share per month which became effective for the Corporation's March 2015 dividend. On March 13, 2015, PHX Energy declared a dividend of \$0.035 per share or \$1.2 million, payable on April 15, 2015. In aggregate, dividends of \$6.2 million (2014 - \$7.2 million) were declared for the three-month period ended March 31, 2015.

10. Other Income:

(Stated in thousands of dollars)

| | Three-month periods ended March 31, | |
|--|-------------------------------------|-------|
| | 2015 | 2014 |
| Foreign exchange gains (losses) | 440 | (409) |
| Gain (Loss) on disposition of drilling equipment | (105) | 1,664 |
| Provision for bad debts | - | (480) |
| Other Income | 335 | 775 |

11. 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.

12. Contingent Liability:

- 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. Subsequent to March 31, 2015, 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 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, the Corporation's wholly-owned subsidiary, Phoenix USA, was named in a second legal action in Houston, Texas commenced by two former consultants (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.

Phoenix USA is still in the early stages of its investigation into the subject matter and facts. 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 intends to file a defense to the action and vigorously defend the same including, without limitation, the conditional certification of the action. Based upon the recent filing of the lawsuit, the ongoing initial investigation, and the potential available defenses, PHX Energy currently does not believe this action to be material to the Corporation.

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

