PRESS RELEASE
May 13, 2020
TSX – PHX
Calgary, Alberta

PHX Energy Announces Its Operating and Financial Results for the First Quarter of 2020

Overall Performance

PHX Energy realized adjusted EBITDA of $18.7 million in the first quarter of 2020, the highest quarterly adjusted EBITDA reported since the third quarter of 2014 and 63 percent higher than the adjusted EBITDA of $11.4 million realized in the first quarter of 2019 (see “Non-GAAP Measures”). Improved profitability was mainly driven by higher revenue in the US, and in addition the gains in profitability generated in all operating segments also contributed to the overall improvement. Adjusted EBITDA in the 2020-quarter includes a $4 million provision for bad debts (2019 - $47 thousand), which is partially offset by a $3.4 million recovery of cash-settled share-based payments (2019 - $2.9 million expense). In the first quarter of 2020, PHX Energy also achieved its highest quarterly revenue since the first quarter of 2015. The Corporation’s consolidated revenue increased 12 percent to $103 million for the three-month period ended March 31, 2020, as compared to $92.1 million in the 2019-quarter. Consolidated revenue per day, excluding the motor rental division in the US, was $13,615, an increase of 9 percent, compared to revenue per day of $12,447 in the 2019-quarter. Consolidated operating days increased by 3 percent to 7,241 in the first quarter of 2020, as compared to 7,025 days in the first quarter of 2019.

The US division’s revenue represented 72 percent of first quarter consolidated revenue and the division achieved its highest quarterly revenue since the fourth quarter of 2014. US revenue was $74.3 million, an increase of 18 percent relative to the $63 million generated in the 2019-quarter. The Corporation’s US operating days grew to 4,029 in the first quarter of 2020 from 3,749 operating days in the 2019-quarter, an increase of 7 percent. This outpaced the US industry where the active rig count declined 25 percent from an average of 1,043 rigs operating per day in the first quarter of 2019 to an average of 785 rigs operating per day in 2020. US revenue per day was $17,571, which is 10 percent higher than the revenue per day of $15,943 in the 2019-quarter. This increase in revenue per day contributed to improved profitability. The Corporation’s growth in the US was driven by its fleet of high performance technologies, specifically Velocity Real Time Systems (“Velocity”), PowerDrive Orbit Rotary Steerable Systems (“RSS”), and Atlas High Performance (“Atlas”) Motors.

In Canada, the Corporation’s revenue was flat quarter-over-quarter with the segment generating $24.6 million in the 2020-quarter compared to $24.9 million in 2019. The Canadian segment’s operating days decreased 3 percent from 2,737 in the first quarter of 2019 to 2,645 operating days in the first quarter of 2020. This decline in activity was offset by a 5 percent increase in revenue per day, which rose to $8,964 in the first quarter from $8,555 in the 2019-quarter. In comparison, the industry experienced a 16 percent increase in horizontal and directional drilling days, which differs from PHX Energy’s activity trend as the Corporation declined jobs with unfavourable contract terms.

For the three-month period ended March 31, 2020, PHX Energy reported a net loss of $3.3 million (2019 - $1.1 million). The net loss in the 2020-quarter includes a $10.2 million impairment loss on goodwill and the Stream Services (“Stream”) division (2019 - nil).

As at March 31, 2020, the Corporation had loans and borrowings of $23.4 million as well as operating facility borrowings of $0.2 million. These debt items less cash and cash equivalents of $7.2 million resulted in net debt of $16.4 million (December 31, 2019 - $14.7 million). For the three-month period ended March 31, 2020, the Corporation realized free cash flow of $16.8 million, an increase of 182 percent, as compared to $6 million realized in the corresponding 2019-quarter (see "Non-GAAP Measures").

Responding to COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus or COVID-19 a global pandemic and the Corporation adopted heightened safety protocols as a result of COVID-19. At present, the Corporation's business is considered essential in Canada and the US given the important role PHX Energy's activities play in delivering oil and natural gas to North American markets. The Corporation anticipates that changes to work practices and other restrictions put in place by governments and health authorities in response to COVID-19 will have an impact on business activities going forward.

COVID-19 has had a significant impact on the global economy and has resulted in a substantial weakening of global oil prices. The Corporation anticipates material declines in revenues as drilling activity adjusts to historically low oil prices. This deterioration of the economic and industry conditions has materially impacted the first quarter financial results of the Corporation with a $10.2 million impairment expense and a $4 million provision for bad debts recorded in the period. There are many variables and uncertainties regarding COVID-19, including the duration and magnitude of the disruption in the oil and natural gas industry. As such, it is not possible to precisely estimate the potential impact of the COVID-19 pandemic on the Corporation's financial condition and operations. Management has been proactive in mitigating these risks by aligning costs with projected revenues and protecting profit margins. In March and subsequent months, the Corporation began to restructure its business costs in line with decreasing drilling activity in North America. This includes the unfortunate necessity to decrease the size of its workforce as well as actions to lower labour rates, reduce rental costs, and maximize discounts and efficiencies within the supply chain. The Corporation is also taking advantage of various government assistance programs available for businesses in North America. In total, the Corporation anticipates monthly savings of $3 million as a result of implemented and planned decreases to labour costs.

The Corporation has remained diligent in protecting its balance sheet and retains financial flexibility with significant liquidity on its credit facilities with no material near-term debt maturities. As at March 31, 2020, the Corporation has working capital of $79.8 million and has approximately CAD $42.8 million and USD $14 million available to be drawn from its credit facilities. The Corporation has suspended new capital expenditures and as at March 31, 2020 has commitments to purchase drilling and other equipment for $6.1 million, with delivery expected to occur by the end of the second quarter. The Corporation has also suspended all share repurchases under its Normal Course Issuer Bid ("NCIB"). Additional information regarding the risks, uncertainties and impact on the Corporation's business can be found throughout this press release, including under the headings "Capital Spending", "Operating Costs and Expenses" and "Outlook" and within the Corporation's first quarter report.

Capital Spending

For the three-month period ended March 31, 2020, the Corporation spent $19 million in capital expenditures compared to $11.3 million in the 2019-quarter, an increase of $7.7 million. Capital expenditures for the 2020-quarter were primarily directed towards Atlas motors, RSS, and Velocity systems. Of the total capital expenditures in the 2020-quarter, $16.5 million was spent on growing the Corporation's fleet of drilling equipment and the remaining $2.5 million was spent on maintenance of the current fleet of drilling and other equipment.

As at March 31, 2020, the Corporation has commitments to purchase drilling and other equipment for $6.1 million, comprised of $4.9 million for Velocity systems, $0.5 million for performance drilling motors, and $0.7 million for other machinery and equipment. Delivery of these purchases is expected to occur by the end of the second quarter of 2020.

In 2020, the Corporation expects to spend $27.5 million in capital expenditures as compared to the previously forecasted $30 million.

Normal Course Issuer Bid

During the third quarter of 2019, the Toronto Stock Exchange ("TSX") approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,280,889 common shares, representing 10 percent of the Corporation's public float of Common Shares as at July 31, 2019. The NCIB commenced on August 9, 2019 and will terminate on August 8, 2020. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the current NCIB, subsequent to August 9, 2019, 2,524,500 common shares were purchased by the Corporation and cancelled as at December 31, 2019.

For the three-month period ended March 31, 2020, the Corporation made no common share repurchases (2019 - 229,500 common shares).

The Corporation's previous NCIB commenced on August 8, 2018 and terminated on August 7, 2019. Pursuant to the previous NCIB, in 2019 the Corporation purchased and cancelled 2,237,800 common shares. In total, pursuant to the previous NCIB 2,595,300 common shares were purchased and cancelled by the Corporation.

Financial Highlights

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

	Three-month periods ended March 31,		
	2020	2019	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**103,020**	92,121	12
Net loss	**(3,321)**	(1,067)	n.m.
Loss per share – diluted	**(0.06)**	(0.02)	n.m.
Adjusted EBITDA (1)	**18,686**	11,431	63
Adjusted EBITDA per share – diluted (1)	**0.35**	0.19	84
Adjusted EBITDA as a percentage of revenue (1)	**18%**	12%	
Cash Flow			
Cash flows from operating activities	**11,130**	9,699	15
Funds from operations (1)	**20,792**	10,100	106
Funds from operations per share – diluted (1)	**0.39**	0.17	129
Capital expenditures	**18,992**	11,307	68
Free cash flow (1)	**16,767**	5,950	182
Financial Position (unaudited)	**Mar 31, '20**	Dec 31, '19	
Working capital (1)	**79,838**	68,393	17
Net Debt (1)	**16,399**	14,710	11
Shareholders' equity	**152,749**	148,944	3
Common shares outstanding	**53,251,420**	53,246,420	-

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

n.m. – not meaningful

Non-GAAP Measures

PHX Energy uses throughout this press release certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP"). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA per share, debt to covenant EBITDA, funds from operations, funds from operations per share, free cash flow, net debt and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP Measures" section following the Outlook section of this press release for applicable definitions and reconciliations.

Cautionary Statement Regarding Forward-Looking Information and Statements

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "could", "should", "can", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Corporation believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this document should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this document

In particular, forward-looking information and statements contained in this document include, without limitation, the timeline for delivery of equipment on order, the projected capital expenditures budget for the 2020-year and how this budget will be allocated and funded, and the anticipated impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto.

The above are stated under the headings: "Capital Spending", "Responding to COVID-19" and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Responding to COVID-19" and "Outlook" in this document contains forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this press release 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; the continuing impact of COVID-19 on the global economy, specifically trade, manufacturing, supply chain and energy consumption, among other things and the resulting impact on the Corporation's operations and future results which remain uncertain; exchange and interest rates; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain and maintain financing on acceptable terms to fund its ongoing operations and 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 press release are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Revenue

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2020	2019	% Change
Revenue	**103,020**	92,121	12

For the three-month period ended March 31, 2020, PHX Energy achieved the highest quarterly revenue since the first quarter of 2015. Consolidated revenue rose to $103 million in comparison to $92.1 million in the same 2019-quarter, an increase of 12 percent. This higher revenue was largely driven by greater activity and improved revenue per day in PHX Energy’s US division, which represented 72 percent of consolidated revenue in the 2020-quarter (2019 - 68 percent). PHX Energy continued to expand the capacity of its high performance technology fleets in the quarter which also contributed to the revenue growth. Average revenue per day, excluding the motor rental division in the US, increased from $12,447 in the 2019-quarter to $13,615 in the corresponding 2020-quarter. Consolidated operating days rose from 7,025 days in the 2019-quarter to 7,241 days in the 2020-quarter, an increase of 3 percent.

Crude oil prices declined in the first quarter of 2020, with Western Texas Intermediate (“WTI”) averaging USD $46/bbl in the first quarter of 2020 (2019 - USD $55/bbl) and Western Canadian Select (“WCS”) oil prices averaging USD $26/bbl (2019 - CAD $43/bbl). As a result of the trend in the oil prices, the US rig count fell 25 percent quarter-over-quarter, whereas the Canadian rig count remained more stable and actually increased 7 percent quarter-over-quarter. In the first quarter of 2020, there were 785 rigs operating per day (2019 - 1,043 rigs) in the US and 196 rigs operating per day in Canada (2019 - 183 rigs). Throughout North America horizontal and directional wells continued to be the norm, representing 94 percent of all wells drilled in Canada and 96 percent of the average number of rigs operating per day in the US (Sources: Daily Oil Bulletin and Baker Hughes).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2020	2019	% Change
Direct costs	**83,354**	78,790	6
Gross profit as a percentage of revenue	**19%**	14%	
Depreciation & amortization drilling and other equipment (included in direct costs)	**7,905**	10,167	(22)
Depreciation & amortization right-of-use asset (included in direct costs)	**930**	867	7
Gross profit as percentage of revenue excluding depreciation & amortization	**28%**	26%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment and right-of-use assets. For the three-month period ended March 31, 2020, direct costs increased by 6 percent to $83.4 million from $78.8 million in the 2019-quarter. Higher direct costs are mainly attributable to increased activity in PHX Energy's US division.

For the three-month period ended March 31, 2020, the Corporation's depreciation and amortization on drilling and other equipment decreased 22 percent to $7.9 million from the $10.2 million recorded in the corresponding 2019-quarter. Lower depreciation and amortization on drilling and other equipment in the period relates to a large number of drilling and other equipment being fully depreciated in the fourth quarter of 2019.

In the first quarter of 2020, gross profit as a percent of revenue excluding depreciation and amortization was 28 percent compared to 26 percent in the first quarter of 2019. Improved profitability in 2020 relative to the corresponding 2019-quarter is mainly due to Phoenix USA's increased drilling activity and revenue per day. The Corporation continues to closely monitor expenses in relation to activity, which also aided in improved margins.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2020	2019	% Change
Selling, general & administrative ("SG&A") costs	**7,002**	13,202	(47)
Cash-settled share-based payments (included in SG&A costs)	**(3,447)**	2,935	n.m.
Equity-settled share-based payments (included in SG&A costs)	**63**	184	(66)
SG&A costs excluding equity and cash-settled share-based payments as a percentage of revenue	**10%**	11%	

n.m. – not meaningful

For the three-month period ended March 31, 2020, the Corporation's SG&A costs decreased 47 percent to $7 million from $13.2 million in the 2019-quarter, due to lower cash-settled share-based payments.

Cash-settled share-based payments relate to the Corporation's Retention Award Plan and are measured at fair value. For the three-month period ended March 31, 2020, the Corporation recognized a recovery of $3.4 million relating to cash-settled share-based payments relative to an expense of $2.9 million in the corresponding 2019-quarter. Lower cash-settled share-based payments in the 2020-quarter are primarily due to fluctuations in the Corporation's share price in the period, relative to share price movements in the same 2019-quarter.

Equity-settled share-based payments relate to the amortization of the fair values of issued options by the Corporation using the Black-Scholes model. For the three-month period ended March 31, 2020, equity-settled share-based payments decreased 66 percent due to stock option grants from prior years fully vesting in the 2019 and 2020-years.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2020	2019	% Change
Research & development expense	**1,272**	900	41

Research and development ("R&D") expenditures for the three-month period ended March 31, 2020 were $1.3 million, a 41 percent increase as compared to $0.9 million in the 2019-quarter. PHX Energy continues to focus on developing new technologies, improving reliability of equipment, and decreasing costs to operations. Increases to R&D costs mainly relate to reclassifications of R&D expense movements within the Condensed Consolidated Statement of Comprehensive Income (Loss) in the first quarter of 2020.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2020	2019	% Change
Finance expense	**353**	384	(8)
Finance expense lease liability	**543**	646	(16)

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three-month period ended March 31, 2020, finance charges were flat quarter-over-quarter at $0.4 million.

Finance expense lease liability relates to interest expenses incurred on lease liabilities, and decreased by $0.1 million in the period.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2020	2019
Net gain on disposition of drilling equipment	**(1,939)**	(1,280)
Foreign exchange losses	**129**	265
Provision for bad debts	**4,002**	47
Other expenses (income)	**2,192**	(968)

For the three-month period ended March 31, 2020, the Corporation recognized other expenses of $2.2 million as compared to other income of $1 million in the 2019-quarter. Other expenses recognized in the 2020-quarter relate primarily to a provision for bad debts of $4 million. The Corporation recognized higher provisions for bad debts due to increased credit risks of its customers as a result of the unparalleled decline in energy demand and the resulting supply imbalance stemming from global impacts of COVID-19.

Net gain on disposition of drilling equipment is comprised of gains on disposition of drilling equipment 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. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. In the 2020-quarter, more instances of downhole equipment losses occurred as compared to the 2019-quarter, resulting in higher net gain on disposition of drilling equipment.

The Corporation recognized foreign exchange losses of $0.1 million in the 2020-quarter (2019 - $0.3 million) mainly due to settlement of US-denominated intercompany payable in the International segment.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2020	2019	% Change
Impairment loss	**10,249**	-	n.m.

n.m. – not meaningful

In the first quarter of 2020, the Corporation recognized $10.2 million in impairment losses (2019 – nil). Due to COVID-19 and the decline in global oil and natural gas prices, the Corporation determined that indicators of impairment existed in its Canadian, US, and International segments. Goodwill that was allocated to PHX Energy's Canadian segment was tested for impairment and as a result, the Corporation recognized an impairment expense of $8.9 million equivalent to the full amount of goodwill. The Corporation also determined no further economic benefits are expected from the future use or future disposal of Stream's EDR equipment. The Corporation has substantially closed all of its operations in Stream. As a result, EDR equipment with a carrying amount of $1.2 million was derecognized, as well as working capital of $0.1 million.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,	
	2020	2019
Provision for income taxes	**1,376**	234
Effective tax rates	**n.m.**	n.m.

n.m. – not meaningful

The provision for income taxes for the three-month period ended March 31, 2020 was $1.4 million as compared to $0.2 million in the 2019-quarter. Higher provisions in the 2020-quarter primarily relate to higher income in the US segment. Deferred taxes in the 2019 and 2020-periods were impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdictions.

Segmented Information

The Corporation reports three operating segments on a geographical basis throughout the Canadian provinces of Alberta, Saskatchewan, British Columbia, and Manitoba; throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US; and internationally in Russia and Albania.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2020	2019	% Change
Revenue	**24,604**	24,864	(1)
Reportable segment profit (loss) before tax	**3,292**	(394)	n.m.

n.m. – not meaningful

For the three-month period ended March 31, 2020, PHX Energy's Canadian revenue was $24.6 million which is flat compared to revenue of $24.8 million in the same 2019-quarter. The Corporation's Canadian operating days declined 3 percent to 2,645 days relative to 2,737 days in the corresponding 2019-quarter. Due to the Corporation's decision to cease work related to unfavorable contract terms, PHX Energy's activity levels contrast to that of the industry which experienced a 16 percent increase in horizontal and directional operating days. There were 16,790 industry horizontal and directional drilling days in the 2020-quarter as compared to 14,498 days in the 2019-quarter (Source: Daily Oil Bulletin). Average revenue per day in the first quarter of 2020 was $8,964, an increase of 5 percent compared to revenue per day of $8,555 in the same 2019-quarter.

During the 2020-quarter, 46 percent of the Canadian division's activity was oil well drilling and PHX Energy was active in the Montney, Wilrich, Bakken, Shaunavon, Cardium and Viking areas.

For the three-month period ended March 31, 2020, the Canadian division's reportable segment profit before tax increased to $3.3 million as compared to $0.4 million loss in the 2019-quarter. Despite decreased activity in the 2020-quarter, PHX Energy's Canadian division achieved higher profitability due to higher average revenue per day, lower cash-settled share-based payments, and lower repair costs for drilling and other equipment.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2020	2019	% Change
Revenue	**74,315**	62,996	18
Reportable segment profit before tax	**10,396**	4,044	157

Building upon the success achieved throughout 2019, Phoenix USA combined the continued growth of its fleet of high performance drilling technologies with superior performance of personnel in the field to once again outperform the industry, and achieve its highest quarterly revenue since the fourth quarter of 2014.

For the three-month period ended March 31, 2020, revenue rose 18 percent to $74.3 million from $63 million in the 2019-quarter and the division represented 72 percent of the Corporation's first quarter consolidated revenue (2019 - 68 percent). US operating days increased 7 percent to 4,029 days in 2020 from 3,749 days in the first quarter of 2019. Phoenix USA's strong growth outpaced the industry which began to experience a slowdown in 2020. In the first quarter, the number of horizontal and directional rigs running per day decreased by 24 percent from an average of 982 horizontal and directional rigs running per day during the 2019-quarter to 750 in the 2020-quarter (Source: Baker Hughes). For the three-month period ended March 31, 2020, the average revenue per day, excluding the Corporation's US motor rental division, rose by 10 percent to $17,571 from $15,943 in the 2019-quarter. Higher average revenue per day in the 2020-quarter relates to the increased capacity within the fleet of high performance technologies.

The Corporation's reportable segment income before tax rose from $4 million in the first quarter of 2019 to $10.4 million in the 2020-quarter, a 157 percent increase. Improved profitability in the 2020-quarter is primarily due to higher operating days and revenue per day, as well as lower cash-settled share-based payments in the US division relative to the 2019-quarter.

International

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2020	2019	% Change
Revenue	**4,101**	4,261	(4)
Reportable segment profit (loss) before tax	**225**	(105)	n.m.

n.m. – not meaningful

For the three-month period ended March 31, 2020, the International segment's revenue decreased slightly to $4.1 million as compared to $4.3 million in the same 2019-quarter. PHX Energy generated 4 percent of its consolidated revenue from its International operations in the 2020-quarter versus 5 percent in the first quarter of 2019. Revenue was slightly lower as a result of Albanian operations being temporarily suspended during the first quarter of 2020. In the first quarter of 2019, PHX Energy operated 3 rigs in Albania which generated revenue of $2.3 million.

In the first quarter of 2020, the Russian division generated revenue of $4.1 million, an increase of 103 percent from revenue of $2 million in the corresponding 2019-quarter. Operating days in Russia rose 95 percent quarter-over-quarter with the division recording 568 days in 2020 as compared to 291 days in the relative 2019-quarter.

The International segment recognized reportable segment income of $0.2 million in the first quarter of 2020, compared to a reportable segment loss of $0.1 million in the corresponding 2019-quarter. Higher margins in the 2020-quarter primarily relate to improved cost management.

Investing Activities

In the first quarter of 2020, the Corporation used $10.3 million net cash in investing activities as compared to $10.5 million in the same 2019-quarter, and received proceeds of $3.5 million relating to the involuntary disposal of drilling equipment in well bores as compared to $2.5 million in the corresponding 2019-quarter. For the three-month period ended March 31, 2020, the Corporation spent $19 million on capital expenditures of drilling and other equipment as compared to $11.3 million spent in the 2019-quarter. The expenditure in the first quarter of 2020 were comprised of:

- $10.4 million downhole performance drilling motors,
- $6.3 million in RSS tools, machinery and equipment, vehicles and other assets, and
- $2.3 million in MWD systems and spare components.

The capital expenditure program undertaken in the period was financed generally from funds from operations. Of the total capital expenditures in the 2020-quarter, $16.5 million was spent on growing the Corporation's fleet of drilling equipment and the remaining $2.5 million was spent on maintenance of the current fleet of drilling and other equipment.

The change in non-cash working capital balances of $5.3 million (source of cash) for the three-month period ended March 31, 2020, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $1.8 million (use of cash) for the three-month period ended March 31, 2019.

Financing Activities

The Corporation reported cash flows used in financing activities of $4.3 million in the three-month period ended March 31, 2020 as compared to $1.2 million in the comparable 2019-quarter. In the 2020-quarter, the Corporation:

- made net payments of $1.8 million to its syndicated facilities,
- made payment of $1.5 million relating to surrender value of stock options,
- made payments of $0.9 million towards lease liability, and
- issued 5,000 common shares for proceeds of $7,750 upon the exercise of share options.

Capital Resources

As of March 31, 2020, the Corporation had $23.4 million drawn on its syndicated facility, $0.2 million drawn on its operating facility, and a cash balance of $7.2 million. As at March 31, 2020, the Corporation had approximately CAD $42.8 million and USD $14 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at March 31, 2020, 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 2020 capital expenditures are expected to be $27.5 million as compared to the previously forecasted $30 million, subject to quarterly review of the Board of Directors.

These planned expenditures are expected to be financed from a combination of one or more of the following: cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2020, 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.

As at March 31, 2020, the Corporation has commitments to purchase drilling and other equipment for $6.1 million, with delivery expected to occur by the end of the second quarter.

Outlook

The global economy has entered an unprecedented time. The personal, business and economic impacts associated with COVID-19 are creating challenges that we have not seen in decades, if ever. For the energy industry these challenges are compounded by the oil price collapse brought on by the significant reductions in demand resulting from the global response to COVID-19 and supply issues.

The health and safety of our stakeholders is our top priority, and as COVID-19 began to appear in the areas we operate, we took swift action to implement various policies and measures to protect the people our business impacts. These measures were taken while ensuring business continuity as our operations are considered an essential services and we are continuing to actively monitor this situation and adopt guidance provided by government and health authorities. Our people have risen to the challenge of operating in this new environment and have responded with safety front of mind.

We started 2020 strong and until early-March our operations were on target to exceed our expectations. In the first quarter, we achieved the highest quarterly adjusted EBITDA since the third quarter of 2014, and the highest quarterly revenue since the first quarter of 2015. However, we are now operating in a new reality and although our strong first quarter results will help support us through the uncertainties ahead, our outlook and forecasts have dramatically changed.

In the second quarter, our North American activity has significantly declined with the rig counts shrinking to levels not seen since the industry started tracking rig counts. Pricing pressures are also mounting as operators work to sustain economic drilling operations amidst the market events and as competition intensifies. As a result, our activity levels and average revenue per day are contracting accordingly. Despite this, we believe our North American operations, particularly in the US, have opportunities to grow market share in the shrinking market due to the strength of our operational performance, personnel and leading edge technologies. In Russia, our activity has remained stable, however, several customers have indicated reductions in active rigs and as such we expect our activity to possibly decline in this market in upcoming quarters.

We believe that the disciplined financial, operational and technology development strategies we have implemented in the prior years will provide the strength to withstand this difficult environment. We have worked diligently to position ourselves with a well-structured balance sheet and a low level of debt, and this will aide us in weathering this downturn. Despite oil prices collapsing, natural gas prices have remained stable and natural gas directed drilling activity is continuing which will help our operations remain active. Additionally, we have maintained an unwavering focus on becoming a technology leader in the directional drilling sector and this has equipped us with a fleet of high performance technologies that differentiates us from our competition. We believe that this fleet will continue to provide us a competitive advantage, although pricing concessions will be required, as operators focus on efficiency and high grading all aspects of their drilling operations to drill economically in this challenging environment. Our focus remains on retaining and attracting as much activity as possible as we align our cost structure and operations to this new reality.

Although well positioned, we were required to take quick actions to ensure we remained disciplined in our spending and that our cost structure was aligned with the circumstances of this unprecedented time. We are preserving the expertise to continue to provide exceptional service to our clients while adjusting to the dramatically reduced levels of activity that are forecasted for the remainder of 2020. We will continue to assess all aspects of our business for efficiencies, including the various government assistance programs announced in both Canada and the US, and further reductions, if required.

Even with our strong financial and operational position, we, along with our entire industry, are in for a very challenging year ahead. As we have proven in past downturns, we are committed to the steps required to exit this cycle ready for the upside. We will remain disciplined with our cost management strategies to preserve our healthy financial position and be relentless in protecting our position as a technology leader.

Michael Buker, President
May 13, 2020

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense, finance expense lease liability, income taxes, depreciation and amortization, impairment losses on drilling and other equipment and goodwill, equity share-based payments, severance and vacation payouts relating to the oil market downturn beginning in March 2020, and unrealized foreign exchange gains or losses, does not have a standardized meaning and is not a financial measure that is recognized under GAAP. However, Management believes that adjusted EBITDA provides supplemental information to net earnings that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed and how it was taxed in various countries. Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2020	2019
Net Loss	**(3,321)**	(1,067)
Add:		
Impairment loss	**10,249**	-
Depreciation and amortization drilling and other equipment	**7,905**	10,167
Depreciation and amortization right-of-use asset	**930**	867
Provision for income taxes	**1,376**	234
Severance expense	**583**	-
Finance expense	**353**	384
Finance expense lease liability	**543**	646
Equity-settled share-based payments	**63**	184
Unrealized foreign exchange loss	**5**	16
Adjusted EBITDA as reported	**18,686**	11,431

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

Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2020	2019
Net cash flows from operating activities	**11,130**	9,699
Add (deduct):		
Changes in non-cash working capital	**9,357**	(17)
Interest paid	**204**	278
Income taxes paid	**101**	140
Funds from operations	**20,792**	10,100

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.

Free Cash Flow

Free cash flow is defined as funds from operations less maintenance capital expenditures and cash payment on leases. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses free cash flow as an indication of the Corporation's ability to generate funds from its operations to support operations and maintain the Corporation's drilling and other equipment. 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 free cash flow 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 funds from operations to free cash flow:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2020	2019
Funds from operations	**20,792**	10,100
Deduct:		
Maintenance capital expenditures	**(2,559)**	(2,709)
Cash payment on leases	**(1,466)**	(1,441)
Free cash flow	**16,767**	5,950

Debt to Covenant EBITDA Ratio

Debt is represented by loans and borrowings. Covenant EBITDA, for purposes of the calculation of this covenant ratio, is represented by net earnings for a rolling four quarter period, adjusted for finance expense and finance expense lease liability, provision for income taxes, depreciation and amortization, equity-settled share-based payments, impairment losses on drilling and other equipment and goodwill, unrealized foreign exchange gains or losses, and IFRS 16 adjustment to restate cash payments to expense, subject to the restrictions provided in the amended credit agreement.

Working Capital

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

Net Debt

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

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Russia and Albania.

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

In the first quarter of 2020, the Corporation closed substantially all of its operations in its Stream division which marketed electronic drilling recorder ("EDR") technology and services.

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

For further information please contact:

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Consolidated Statements of Financial Position

(unaudited)

		March 31, 2020		December 31, 2019
ASSETS				
Current assets:				
Cash and cash equivalents	$	7,179,544	$	10,582,296
Trade and other receivables		91,931,663		93,641,885
Inventories		34,591,115		30,826,700
Prepaid expenses		3,329,206		2,569,046
Current tax assets		434,522		-
Total current assets		137,466,050		137,619,627
Non-current assets:				
Drilling and other long-term assets		92,557,953		78,416,229
Right-of-use asset		32,401,901		32,825,964
Intangible assets		18,480,750		18,901,559
Goodwill		-		8,876,351
Deferred tax assets		924,075		613,355
Total non-current assets		144,364,679		139,633,458
Total assets	$	281,830,729	$	277,253,385
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Lease liability	$	2,749,585	$	2,765,633
Operating facility		159,666		11,395,835
Trade and other payables		54,718,748		54,892,277
Current tax liability		-		172,766
Total current liabilities		57,627,999		69,226,511
Non-current liabilities:				
Lease liability		39,629,220		39,753,860
Loans and borrowings		23,418,700		13,896,400
Deferred tax liability		8,405,980		5,432,527
Total non-current liabilities		71,453,900		59,082,787
Equity:				
Share capital		251,219,748		251,815,183
Contributed surplus		10,003,005		10,854,650
Retained earnings		(131,223,279)		(127,902,593)
Accumulated other comprehensive income		22,749,356		14,176,847
Total equity		152,748,830		148,944,087
Total liabilities and equity	$	281,830,729	$	277,253,385

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three-month periods ended March 31,	
	2020	2019
Revenue	**$ 103,019,795**	$ 92,120,704
Direct costs	**83,354,051**	78,790,218
Gross profit	**19,665,744**	13,330,486
Expenses:		
Selling, general and administrative expenses	**7,002,137**	13,201,938
Research and development expenses	**1,272,417**	899,586
Finance expense	**353,070**	383,600
Finance expense lease liability	**542,520**	646,161
Other expenses (income)	**2,191,519**	(968,256)
Impairment loss	**10,248,719**	-
	21,610,382	14,163,029
Loss before income taxes	**(1,944,638)**	(832,543)
Provision for (Recovery of) income taxes		
Current	**(202,765)**	348,472
Deferred	**1,578,813**	(114,050)
	1,376,048	234,422
Net loss	**(3,320,686)**	(1,066,965)
Other comprehensive income (loss)		
Foreign currency translation	**8,572,509**	(858,074)
Total comprehensive income (loss) for the period	**$ 5,251,823**	$ (1,925,039)
Loss per share – basic	**$ (0.06)**	$ (0.02)
Loss per share – diluted	**$ (0.06)**	$ (0.02)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	**$ (3,320,686)**	$ (1,066,965)
Adjustments for:		
Depreciation and amortization drilling and other equipment	**7,905,062**	10,167,271
Depreciation and amortization right-of-use asset	**929,978**	867,203
Provision for income taxes	**1,376,048**	234,422
Impairment loss	**10,248,719**	-
Unrealized foreign exchange loss	**4,512**	16,075
Gain on disposition of drilling equipment	**(1,938,529)**	(1,280,178)
Equity-settled share-based payments	**63,212**	183,957
Finance expense	**353,070**	383,600
Provision for bad debts	**4,002,498**	46,571
Provision for inventory obsolescence	**1,167,884**	547,401
Interest paid	**(203,870)**	(277,538)
Income taxes paid	**(101,361)**	(139,940)
Change in non-cash working capital	**(9,356,840)**	17,414
Net cash from operating activities	**11,129,697**	9,699,293
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**3,467,713**	2,533,773
Acquisition of drilling and other equipment	**(18,992,098)**	(11,306,546)
Change in non-cash working capital	**5,259,884**	(1,755,135)
Net cash used in investing activities	**(10,264,501)**	(10,527,908)
Cash flows from financing activities:		
Proceeds from loans and borrowings	**9,402,400**	7,187,900
Proceeds from issuance of share capital	**7,750**	87,750
Repurchase of shares under the NCIB	**-**	(670,600)
Payments of lease liability	**(923,887)**	(795,063)
Surrender value cash payment	**(1,518,042)**	-
Repayment of operating facility	**(11,236,169)**	(4,593,765)
Net cash from (used in) financing activities	**(4,267,948)**	1,216,222
Net increase (decrease) in cash and cash equivalents	**(3,402,752)**	387,607
Cash and cash equivalents, beginning of period	**10,582,296**	3,643,418
Cash and cash equivalents, end of period	**$ 7,179,544**	$ 4,031,025