PRESS RELEASE
October 31, 2018
TSX - PHX

PHX Energy Announces its Third Quarter Results, Reporting Strong Profitability and Growth in the US

Financial Results

For the three-month period ended September 30, 2018, the Corporation generated its highest quarterly earnings per share and net earnings since the third quarter of 2014. The Corporation recognized earnings per share of $0.06 and net earnings of $3.7 million in the 2018-quarter compared to a $0.01 loss per share and a net loss of $0.8 million in the third quarter of 2017. In the three-month period ended September 30, 2018, the Corporation generated consolidated revenue of $85.0 million, a 30 percent increase relative to $65.4 million generated in the 2017-quarter. Adjusted EBITDA was $13.9 million in the 2018-quarter, which is the highest level since the fourth quarter of 2014. Improved profitability was primarily a result of increased activity in the US. The Corporation achieved this level of adjusted EBITDA despite higher cash-settled share-based payments that amounted to $2.9 million in the 2018-quarter as compared to $0.8 million in the 2017-quarter. Cash-settled share-based payments rose primarily due to increases in the Corporation's share price. As a result of cost control measures implemented over the past few years, PHX Energy is capable of generating higher adjusted EBITDA margins as a percent of revenue with substantially less revenue. In the third quarter of 2018, the adjusted EBITDA margin was 20 percent, excluding cash-settled share-based payments, which is higher than in the fourth quarter of 2014 when the adjusted EBITDA margin, excluding cash-settled share-based payments, was 18 percent and revenue was $152.9 million.

The Corporation's consolidated activity levels for the three-month period ended September 30, 2018, increased by 11 percent to 7,008 days from 6,323 days in the 2017-quarter and average consolidated day rates, excluding the motor rental division in the US and the Stream division, rose by 17 percent to $11,803 from $10,127 in the 2017-quarter.

The Corporation's US segment represented 64 percent of its third quarter consolidated revenue as activity levels in the US industry remained robust as a result of the improved global commodity prices. The Corporation's US revenue increased 38 percent quarter-over-quarter, with the US division generating $54.1 million in the 2018-quarter as compared to $39.3 million in the 2017-quarter. In comparison, the overall rig count in the US industry during the third quarter of 2018 increased by 11 percent to 1,051 average rigs running per day as compared to the 946 rigs per day in the third quarter of 2017. However, the average rig count in the Permian basin increased 27 percent quarter-over-quarter, which is where PHX Energy's US operations are primarily focused (Source: Baker Hughes). During the third quarter, approximately 60 percent of PHX Energy's US activity was in the Permian basin.

In contrast, the Canadian industry and PHX Energy's activity levels were relatively flat in the third quarter of 2018, only improving marginally over the third quarter of 2017. Poor weather conditions negatively impacted activity in the latter half of the 2018-quarter and industry horizontal and directional drilling days only increase by 3 percent to 18,439 days (2017 – 17,983 days) (Source: Daily Oil Bulletin). The Canadian segment generated $25.6 million in the 2018-quarter relative to $21.7 million in the 2017-quarter.

During the third quarter, the Corporation continued to reduce the level of its borrowings. As at September 30, 2018, the Corporation had loans and borrowings of $5.0 million and operating facility borrowings of $4.7 million, less its cash and cash equivalents of $5.7 million, PHX Energy's net balance is $4.0 million. As at the end of the third quarter working capital was $55.1 million.

Capital Spending

During the third quarter of 2018, the Corporation further expanded its fleet of Atlas High Performance motors and Velocity Real-Time systems ("Velocity") and incurred $8.1 million in capital expenditures (2017 - $8.9 million).

As at September 30, 2018, the Corporation had $13.4 million of outstanding capital commitments to purchase drilling and other equipment. These commitments include $11.3 million for motors primarily relating to Atlas High Performance motors, $1.4 million for Velocity systems, and $0.7 million primarily relating to machinery and equipment. The Corporation expects this equipment to be delivered by the end of the first quarter of 2019.

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

Normal Course Issuer Bid

During the third quarter of 2018, the Toronto Stock Exchange ("TSX") approved the renewal of PHX Energy's Normal Course Issuer Bid ("NCIB") to purchase for cancellation, from time-to-time, up to a maximum of 2,915,311 common shares, representing 5 percent of the outstanding common shares at the time the NCIB was renewed. The NCIB commenced on August 8, 2018 and will terminate on August 7, 2019. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the NCIB, 291,800 common shares were purchased by the Corporation in the third quarter and cancelled.

The Corporation's previous NCIB commenced on June 26, 2017 and terminated on June 25, 2018. Pursuant to the prior NCIB, 125,000 common shares were purchased by the Corporation in the first six months of 2018 and cancelled.

Thus far, in the 2018 year, the Corporation has purchased and cancelled 416,800 shares.

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Operating Results	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**85,033**	65,396	30	**224,800**	180,340	25
Net earnings (loss)	**3,743**	(846)	n.m.	**(591)**	(18,401)	(97)
Earnings (loss) per share – diluted	**0.06**	(0.01)	n.m.	**(0.01)**	(0.32)	(97)
Adjusted EBITDA [1]	**13,934**	11,690	19	**30,715**	15,419	99
Adjusted EBITDA per share – diluted [1]	**0.24**	0.20	20	**0.52**	0.26	100
Adjusted EBITDA as a percentage of revenue [1]	**16%**	18%		**14%**	9%	
Cash Flow						
Cash flows from operating activities	**6,027**	(13,684)	n.m.	**15,871**	(9,910)	n.m.
Funds from operations [1]	**11,461**	8,436	36	**24,376**	12,533	94
Funds from operations per share – diluted[1]	**0.19**	0.14	36	**0.42**	0.21	100
Capital expenditures	**8,067**	8,900	(9)	**15,831**	17,397	(9)
Financial Position (unaudited)				**Sept 30, '18**	Dec 31, '17	
Working capital				**55,089**	49,787	11
Long-term debt				**5,000**	14,000	(64)
Shareholders' equity				**181,944**	181,538	-
Common shares outstanding				**58,029,420**	58,397,887	(1)

n.m. – not meaningful

[1] Refer to non-GAAP measures section that follows the outlook section.

Non-GAAP Measures

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

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

In particular, forward-looking information and statements contained in this document include, without limitation, the timeline for delivery of equipment on order, the projected capital expenditures budget and how this budget will be allocated and funded, and the expected addition of a rig in Albania.

The above are stated under the headings: "Capital Spending", “Segmented Information” and "Capital Resources”. Furthermore all statements in the Outlook section of this document contains forward-looking statements.

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

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

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

Revenue

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Revenue	**85,033**	65,396	30	**224,800**	180,340	25

Industry activity in the third quarter of 2018 was stronger relative to the 2017-quarter as commodity prices continued to rise in 2018. For the three-month period ended September 30, 2018, consolidated revenue increased by 30 percent to $85.0 million, from $65.4 million recognized in the 2017-quarter. Consolidated operating days rose to 7,008 days as compared to 6,323 days in the 2017-quarter, an improvement of 11 percent. The average consolidated day rate, excluding the motor rental division in the US and the Stream division, improved by 17 percent to $11,803 in the 2018-quarter, compared to $10,127 realized in the 2017-quarter. The growth in revenue was primarily due to higher levels of drilling activity in the US, as well as, higher average consolidated day rates achieved compared to the 2017-quarter. US and international revenue were 64 and 6 percent, respectively, of total consolidated revenue for the 2018-quarter as compared to 60 and 7 percent, respectively, for the 2017-quarter.

The North American rig count increased by 9 percent quarter-over-quarter, with the US rig count increasing 11 percent while the Canadian rig count was flat. The Permian basin remained the most active basin in North America representing 38 percent of all active rigs in the quarter (2017 – 33 percent). Horizontal wells remained the prominent well type throughout North America representing 93 percent of Canadian industry drilling days (2017 – 92 percent), and 88 percent of the US active rigs running per day (2017 – 84 percent) in the third quarter of 2018 (Sources: Daily Oil Bulletin and Baker Hughes).

For the nine-month period ended September 30, 2018, the Corporation achieved consolidated revenue of $224.8 million an increase of 25 percent from $180.3 million in the comparable 2017-period. Higher revenues for the nine-month period ended September 30, 2018 were a result of improved day rates in the period and growing drilling activity in the US. Consolidated operating days were 19,220, compared to 17,756 days in the 2017-period, an 8 percent improvement. The average consolidated day rate, excluding the motor rental division in the US and the Stream division, in the 2018-period was higher by 16 percent at $11,414 versus the comparable 2017-period of $9,878.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Direct costs	**69,478**	59,996	16	**197,796**	177,577	11
Gross profit as a percentage of revenue	**18%**	8%		**12%**	2%	
Depreciation & amortization (included in direct costs)	**9,505**	9,988	(5)	**29,613**	31,433	(6)
Gross profit as percentage of revenue excluding depreciation & amortization	**29%**	24%		**25%**	19%	

Direct costs are comprised of field and shop expenses, and include depreciation and amortization of the Corporation's equipment. For the three and nine-month periods ended September 30, 2018, the Corporation's direct costs rose to $69.5 million and $197.8 million, respectively, from $60.0 million and $177.6 million in the comparable 2017-periods. These increases were mainly due to higher levels of activity. For the three and nine-month periods ended September 30, 2018, the Corporation's gross profit as a percentage of revenue improved to 18 percent and 12 percent, respectively, compared to 8 percent and 2 percent in the same 2017-periods. Stronger gross profits can be accredited to improved activity and day rates as well as the continued success of strategic cost reduction initiatives implemented in past quarters.

The reduction to the depreciation and amortization expenses for the three and nine-month periods ended September 30, 2018 was primarily the result of PHX Energy's higher level of capital spending in prior years before the industry downturn and more assets being fully depreciated. For the three and nine-month periods ended September 30, 2018, excluding depreciation and amortization, gross profit as a percent of revenue increased to 29 percent and 25 percent, respectively, from 24 percent and 19 percent in the comparable 2017-periods.

The Corporation continued to improve its profitability in 2018, which was primarily a result of the greater volume of activity, higher day rates, and lower depreciation and amortization.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Selling, general & administrative ("SG&A") costs	**12,983**	7,759	67	**30,765**	22,744	35
Equity-settled share-based payments (included in SG&A costs)	**342**	701	(51)	**1,201**	2,219	(46)
Cash-settled share-based payments (recoveries) (included in SG&A costs)	**2,925**	802	n.m.	**4,076**	775	n.m.
Onerous contracts lease payment (included in SG&A costs)	**(122)**	(95)	28	**(270)**	(272)	(1)
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	**12%**	10%		**11%**	11%	

n.m. – not meaningful

For the three and nine-month periods ended September 30, 2018, the Corporation incurred SG&A costs of $13.0 million and $30.8 million, respectively, compared to $7.8 million and $22.7 million in the relative 2017-periods. The rise in SG&A costs

was mainly a result of higher personnel-related costs associated with increased activity, as well as, fluctuations to the Corporation's share price in the 2018-periods.

Included in SG&A costs for the three and nine-month periods ended September 30, 2018 are equity-settled and cash-settled share-based payments of $3.3 million and $5.3 million, respectively, compared to $1.5 million and $3.0 million in the equivalent 2017-periods. In addition, SG&A costs were reduced for actual lease payments made under the Corporation's onerous office lease contracts that were reclassified to reduce the related provision. For the three and nine-month periods ended September 30, 2018, excluding equity-settled and cash-settled share-based payments and the provision for onerous contracts, SG&A costs as a percentage of consolidated revenue were 12 percent and 11 percent, respectively, compared to 10 percent and 11 percent in the comparable 2017-periods.

Equity-settled share-based payments relate to the amortization of the fair values of issued options of the Corporation using the Black-Scholes model. For the three and nine-month periods ended September 30, 2018, equity-settled share-based payments decreased to $0.3 million and $1.2 million, respectively, from $0.7 million and $2.2 million in the comparable 2017-periods, primarily due to fewer options granted in the 2018-periods as compared to the 2017-periods.

For the three and nine-month periods ended September 30, 2018, cash-settled share-based payments included in SG&A increased to $2.9 million and $4.1 million, respectively, compared to $0.8 million in both of the corresponding 2017-periods. The higher compensation expense for cash-settled share-based payments was primarily due to increases in the Corporation's share price in the third quarter of 2018.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Research & development expense	**837**	287	n.m.	**2,506**	1,658	51

n.m. – not meaningful

Research and development ("R&D") expenditures during the three and nine-month periods ended September 30, 2018 were $0.8 million (2017 - $0.3 million) and $2.5 million (2017 - $1.7 million), respectively. The greater R&D expenses in the 2018-periods are primarily due to increased personnel costs in the R&D department. In the third quarter, PHX Energy continued to focus R&D efforts on developing new technology, improving reliability of equipment and decreasing costs in order to enhance and expand PHX Energy's services.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Finance expense	**264**	482	(45)	**929**	1,495	(38)

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three and nine-month periods ended September 30, 2018, finance charges declined to $0.3 million (2017 - $0.5 million) and $0.9 million (2017 - $1.5 million), respectively. The reductions in finance charges in both 2018-periods were primarily attributed to lower levels of borrowings and lower borrowing rates compared to the prior year periods.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2018	2017	**2018**	2017
Net gain on disposition of drilling equipment	**(2,358)**	(3,548)	**(6,209)**	(3,789)
Foreign exchange losses (gains)	**(86)**	119	**(304)**	374
Provision for (Recovery of) bad debts	**(8)**	123	**(15)**	375
Other expense (income)	**(2,452)**	(3,306)	**(6,528)**	(3,040)

During the three and nine-month periods ended September 30, 2018, other income of $2.5 million and $6.5 million, respectively, was realized compared to $3.3 million and $3.0 million in the equivalent 2017-periods. Other income is mainly comprised of gains on the 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 any asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. In the nine-month period ended September 30, 2018 more downhole equipment losses occurred compared to in the 2017-period; in contrast, fewer downhole equipment losses were noted in the third quarter of 2018 compared to the same quarter of 2017.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2018	2017	**2018**	2017
Provision for (Recovery of) income taxes	**180**	1,025	**(77)**	(1,691)
Effective tax rates	**5%**	n.m.	**11%**	8%

n.m. – not meaningful

The provision for income taxes for the 2018-quarter was $0.2 million (2017 - $1.0 million), and the recovery of income taxes for the nine-month period ended September 30, 2018 was $0.1 million (2017 - $1.7 million). The expected combined Canadian federal and provincial tax rate for 2018 is 27 percent. The effective tax rate for the three-month period ended September 30, 2018 was lower than the expected rate due to the effect of tax rates in foreign jurisdictions and non-taxable capital gain. The effective tax rate for the nine-month period ended September 30, 2018 was lower than the expected rate mainly as a result of the effect of non-deductible expenses such as equity-settled share-based payments.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Revenue	**25,646**	21,731	18	**66,307**	64,623	3
Reportable segment income (loss) before tax	**1,831**	(1,363)	n.m.	**(1,469)**	(5,842)	n.m.

n.m. – not meaningful

For the three month-period ended September 30, 2018, PHX Energy's Canadian segment's revenue was $25.6 million which was an 18 percent improvement from the $21.7 million in the same 2017-quarter. The Canadian segment benefited from slightly improved volumes in the 2018-quarter, as operating days in the third quarter rose by 5 percent to 2,923 from 2,795 in the 2017-quarter. In addition as a result of the client mix in the quarter, the average day rates rose by 13 percent to $8,408 from $7,424 in the 2017-quarter. Due to improved day rates, PHX Energy's Canadian operations recognized a reportable segment income before tax of $1.8 million compared to a loss of $1.4 million in the same 2017-quarter.

In the Canadian industry weather conditions in the latter half of the quarter hampered activity growth and the industry's horizontal and directional drilling activity as measured by drilling days only grew by 3 percent from 17,983 days in the 2017-quarter to 18,439 days in the 2018-quarter (Source: Daily Oil Bulletin).

During the third quarter of 2018, oil drilling, as measured by drilling days, represented approximately 81 percent of PHX Energy's Canadian activity and the Corporation remained active in the Montney, Bakken, Shaunavon, Duvernay, Cardium, Provost and Viking areas.

For the nine-month period ended September 30, 2018, the Canadian segment's revenue was relatively flat, with a 3 percent increase to $66.3 million compared to $64.6 million in the corresponding 2017-period. In the 2018-period, average day rates in the Canadian segment increased to $8,227 as compared to $7,250 in the same 2017-period, a positive movement of 13 percent (excluding Stream revenue of $3.0 million in both the 2018 and 2017-period). However, higher day rates were partially offset by lower volumes in the 2018-period as operating days were down 9 percent, with 7,694 operating days recorded versus 8,498 days in the 2017-period. The Canadian industry activity was relatively flat in comparison, with 50,174 horizontal and directional drilling days reported in the nine-month period of 2018 as compared to 50,707 horizontal and directional drilling days in 2017 (Sources: Daily Oil Bulletin). For the nine-month period ended September 30, 2018, reportable segment loss before tax was $1.5 million compared to $5.8 million in the 2017-period.

Stream Services

Included in the Canadian segment's revenue for the three and nine-month periods ended September 30, 2018 is $1.1 million (2017- 1.0 million) and $3.0 million (2017 - $3.0 million), respectively, of revenue generated by the Stream division. For the three and nine-month periods ended September 30, 2018, Stream's operating days were 1,613 days and 4,354 days, respectively, as compared to 1,338 days and 3,930 days in the respective 2017-periods. However, the increase in activity was offset by a decrease in the average day rate for the three and nine-month periods ended September 30, 2018 to $662 and

$690, respectively, down from $737 and $768 in the same 2017-periods. The decrease in the average day rate period-over-period was due to a higher share of lower rate services being provided in the 2018-periods.

For the three and nine-month periods ended September 30, 2018, the Stream division incurred reportable losses before tax of $1.0 million (2017 - $1.1 million) and $3.2 million (2017 - $2.9 million). Stream's losses for the three and nine-month periods ended September 30, 2018 relate primarily to depreciation expenses of $0.6 million and $1.7 million, respectively.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Revenue	**54,129**	39,339	38	**143,842**	101,360	42
Reportable segment income (loss) before tax	**3,219**	712	n.m.	**2,937**	(9,469)	n.m

n.m. – not meaningful

The US segment continued its strong performance for the 2018-year and achieved the second highest third quarter and nine-month to date revenue in the Corporation's history, with the first highest being achieved in the relative periods ended September 30, 2014. For the three-month period ended September 30, 2018 revenue grew to $54.1 million as compared to $39.3 million in the same respective 2017-quarter. Revenue gains in the quarter are mainly attributed to increased activity and day rates. PHX Energy's US segment operating days rose to 3,506 days, an increase of 18 percent as compared to 2,969 days in the corresponding 2017-quarter and the average day rate, excluding the Corporation's US motor rental division, increased by 15 percent to $15,083 in the 2018-quarter (2017 - $13,123). In comparison, the average number of horizontal and directional rigs running per day in the US increased by 13 percent quarter-over-quarter, growing from an average of 876 active rigs per day in 2017 to an average of 988 active rigs per day (Source: Baker Hughes). The average day rate, excluding the Corporation's US motor rental division, increased by 4 percent as a result of the US dollar strengthening in the 2018-quarter over the 2017-quarter. The US denominated average day rate increased by 10 percent quarter-over-quarter.

Horizontal and directional rigs represented 94 percent of the average number of US rigs running per day (2017 – 93 percent) and the Permian basin continued to dominate the US industry, representing 46 percent of the average operating rigs per day in the 2018-quarter (Source: Baker Hughes). During the three-month period ended September 30, 2018, PHX Energy was focused on the Permian basin, which represented approximately 60 percent of the wells drilled by the Corporation. As a result of the strengthening oil prices and this focus on the Permian basin, oil well drilling represented 98 percent of PHX Energy's US activity. In addition to the Permian basin, Phoenix USA continued to be active in the Eagle Ford, Granite Wash, SCOOP/STACK, Marcellus, Bakken and Niobrara basins.

For the nine-month period ended September 30, 2018, US revenue grew to $143.8 million from $101.4 million in the comparable 2017-period, an increase of 42 percent. During the 2018 nine-month period, the US segment saw continued improvements in drilling activity, in addition, PHX Energy's day rates also improved relative to the same period in 2017. Operating days rose by 32 percent to 9,741 days from 7,362 days in the same 2017-period. In comparison, US industry activity,

as measured by the average number of horizontal and directional rigs running on a daily basis, rose by 21 percent period-over-period averaging 958 rigs in the 2018 nine-month period as compared to an average of 789 rigs in the comparable 2017-period. The average day rate, excluding the Corporation's US motor rental division, improved to $14,520 in the 2018-period from $13,504 in the same 2017-period, an increase of 8 percent.

For the three and nine-month periods ended September 30, 2018, the reportable segment income before tax was $3.2 million and $2.9 million, respectively, compared to $0.7 million and a reportable segment loss of $9.5 million in the equivalent 2017-periods. The improved margins in both 2018-periods are mainly attributable to the rise in activity levels and day rates.

International

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Revenue	**5,258**	4,326	22	**14,651**	14,357	2
Reportable segment income (loss) before tax	**1,221**	(69)	n.m.	**831**	(784)	n.m.

n.m. – not meaningful

For the three-month period ended September 30, 2018, PHX Energy's international segment revenue increased by 22 percent to $5.3 million compared to $4.3 million in the 2017-quarter. Higher international revenue was primarily driven by increased volumes in Albania and more measurement while drilling ("MWD") rental revenue in Russia. In the 2018-quarter international operating days were 579 days, 3 percent higher than the 560 days in the 2017-quarter. Revenue for the nine-month period ended September 30, 2018 was flat, although full service revenue in Russia declined this was offset by increases in Albanian activity and higher MWD rental revenue in Russia. For the nine-month period ended September 30, 2018, operating days declined by 6 percent to 1,785 operating days, in comparison to 1,897 days in the corresponding 2017-period. For the three and nine-month periods ended September 30, 2018, the international segment's revenue was 6 percent and 7 percent, respectively, of total consolidated revenue.

In the 2018-quarter, PHX Energy's Russian operating days were 406 days, a decrease of 24 percent from 534 days in the 2017-quarter. Key operators in the region experienced lower activity, but this was partially offset by increases to higher margin MWD rental services, which the division continues to grow.

PHX Energy's Albanian drilling activity significantly increased in the 2018-quarter and 173 operating days were generated as compared to 26 operating days in the 2017-quarter. In 2017, one rig was active throughout the first half of 2017, however operations were suspended in the third quarter of 2017 and remained idle exiting 2017. In 2018, Albania operations were re-commenced in the latter half of the first quarter with one rig, and a second rig was added to the operation in the latter half of the second quarter. Activity in Albania is expected to increase with the addition of a third rig in November 2018.

The international segment achieved reportable segment income for the three and nine-month periods ended September 30, 2018 of $1.2 million and $0.8 million, respectively, compared to reportable segment losses of $0.1 million and $0.8 million in the same 2017-periods. The improved margins in both 2018-periods were mainly due to increased drilling activity in Albania

and greater MWD rental services in PHX Energy's Russian operations, which generates higher margins over the full service business.

Investing Activities

For the three-month period ended September 30, 2018, PHX Energy used $2.4 million of net cash in investing activities as compared to $3.8 million in 2017-quarter. During the 2018-quarter, PHX Energy received proceeds of $3.2 million (2017 - $4.9 million) related primarily to the involuntary disposal of drilling equipment in well bores.

In the third quarter of 2018, the Corporation spent $8.1 million on capital expenditures (2017 - $8.9 million), comprised of:

- $4.5 million in downhole performance drilling motors,
- $3.2 million in MWD systems and spare components, and
- $0.4 million in machining and equipment, and other assets.

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

The change in non-cash working capital balance of $2.5 million (source of cash) for the three-month period ended September 30, 2018, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $1.0 million source of cash for the three-month period ended September 30, 2017.

Financing Activities

The Corporation reported cash flows used in financing activities of $6.2 million in the three-month period ended September 30, 2018 as compared to $14.8 million (source of cash) in the 2017-quarter. The Corporation made aggregate net repayments of $5.5 million on its operating and syndicated facilities during the third quarter of 2018.

Capital Resources

As of September 30, 2018, the Corporation had $5.0 million drawn on its syndicated facility, $4.7 million drawn on its operating facility, nil drawn on its US operating facility, and cash and cash equivalents of $5.7 million. As at September 30, 2018, the Corporation had approximately CAD $53.3 million and USD $5.0 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at September 30, 2018, the Corporation was in compliance with all its financial covenants.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. On May 30, 2018, the Corporation announced an increase to its 2018 capital expenditure program from $10.5 million to $18.5 million. Subsequently on July 4, 2018, the Corporation announced an additional increase to the 2018 capital expenditure program from $18.5 million to $33.5 million. The increase to the 2018 program is expected to be principally directed to the expansion of Atlas High Performance motors for 2019 activity. These planned expenditures are expected to be financed from a combination of one or more of the following: cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2018, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Outlook

In the third quarter, PHX Energy continued the positive momentum from the prior two quarters by generating strong operating results. The Corporation achieved the highest quarterly adjusted EBITDA since the fourth quarter of 2014 and the highest net earnings since the third quarter of 2014. Revenue and activity growth was led by the US operations and all operating regions saw increased operating margins.

As anticipated, in the third quarter the US division maintained the robust levels of activity and revenue that were achieved in the second quarter of the year as a result of the strong rig counts and the growing reputation of Phoenix USA. The US drilling market remains the largest area of activity in PHX Energy's operating regions, and over the past few years PHX Energy has built upon its established operations and marketing expertise in this region with the addition of various high performance technologies that offer competitive advantages that operators are actively seeking. Both the Velocity Real-Time System and the Atlas High Performance motors are recognized throughout the market as industry leading technologies. However, as in the prior quarter, PHX Energy continues to work through the constraints impacting the Corporation's fleet of equipment, inventory of repair components and manufacturing of new equipment. These constraints are tempering the rate at which Phoenix USA is expanding its market share and PHX Energy has worked diligently to alleviate these restraints both through its 2018 capital expenditure program and by working with suppliers to accelerate delivery of components. The Corporation anticipates these efforts will begin to have an impact in the first quarter of 2019, and as a result PHX Energy will see further gains in its US activity levels in the new year. The Permian basin continues to dominate the US industry's activity, despite the anticipation that the rig count gains may slow due to commodity take away concerns in the area. PHX Energy remains focused on this region and has a well-established infrastructure to support further growth in the Permian basin.

In Canada, both the industry and PHX Energy's activity levels remained relatively flat as compared to the third quarter of 2017, due to the political constraints and uncertainty around the energy sector in the country as well as unfavorable weather conditions. Amidst the industry challenges, PHX Energy has remained focused on its strengths in this market and still holds a prominent place, being one of the most active directional providers in the industry. The Corporation's high performance technologies also provide advantages to Canadian drilling applications and a proportional percentage of the Velocity Real-

Time System and Atlas High Performance motor fleets are deployed in Canada. Looking to the fourth quarter of the year, PHX Energy believes activity levels and day rates will remain consistent with those achieved in the third quarter, and anticipates an uptick in activity in the 2019 winter drilling season which is typically more active for the Canadian industry.

PHX Energy's international operations saw an increase in revenue in the third quarter of 2018 over the comparable 2017-quarter. In Russia, the Corporation continued to focus on the MWD rental business and in Albania the Corporation was active on two rigs in the quarter. In upcoming quarters, the Corporation anticipates a slight decline in Russia's full service activity levels as it continues to place emphasis on the higher margin MWD rental market. In Albania, PHX Energy expects activity to increase to three rigs in the fourth quarter.

Technology Update

In the third quarter, the Corporation continued its efforts to increase the capacity of its high performance drilling technology fleets, mainly Velocity Real-Time Systems and Atlas High Performance motors, and PHX Energy remains optimistic about the opportunities that will materialize in the first half of 2019 when new capacity is deployed. The Corporation's efforts to expand its services to offer market access to Atlas High Performance motors beyond its full service operations has started to contribute to the profitability and this new division will be an area of focus in the future. Additionally, PHX Energy is focused on expanding its fleet of disruptive technologies and is developing and acquiring new high margin products.

As part of PHX Energy's strategic objective to be a provider of disruptive technologies, the Corporation has become vertically integrated in its technology development and manufacturing process. PHX Energy controls all aspects of the product life cycle including engineering, procurement, manufacturing, operations, quality control and continuous improvement. This has allowed PHX Energy to commercialize and deploy these technologies with lower costs, greater reliability and a quicker path to market.

The Corporation remains focused on its strategic objectives that have generated the improved profitability in 2018 and strengthened its financial position, including relatively low long-term debt levels. Looking forward to 2019, PHX Energy anticipates this positive momentum will continue. PHX Energy foresees the improvement to profitability will be maintained as a result of its diligent focus on internal efficiencies and the higher margins generated by its growing high performance fleet of technologies.

Michael Buker, President
October 31, 2018

Non-GAAP Measures

1) Adjusted EBITDA

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2018	2017	**2018**	2017
Net income (loss)	**4,464**	(846)	**130**	(18,401)
Add (deduct):				
Depreciation and amortization	**9,505**	9,988	**29,613**	31,433
Provision for (Recovery of) income taxes	**(541)**	1,025	**(798)**	(1,691)
Finance expense	**264**	482	**929**	1,495
Equity-settled share-based payments	**342**	701	**1,201**	2,219
Unrealized foreign exchange (gain) loss	**(100)**	340	**(360)**	364
Adjusted EBITDA as reported	**13,934**	11,690	**30,715**	15,419

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

2) Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2018	2017	**2018**	2017
Cash flows from operating activities	**6,027**	(13,684)	**15,871**	(9,910)
Add (deduct):				
Changes in non-cash working capital	**4,808**	25,968	**7,935**	25,466
Interest paid	**94**	244	**442**	740
Income taxes paid (received)	**532**	(4,092)	**128**	(3,763)
Funds from operations	**11,461**	8,436	**24,376**	12,533

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

3) Debt to Covenant EBITDA Ratio

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

4) Working Capital

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

About PHX Energy Services Corp.

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

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

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

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

For further information please contact:

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Consolidated Statements of Financial Position

(unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,724,935	$ 4,122,539
Trade and other receivables	84,345,541	66,635,311
Inventories	25,926,296	22,009,483
Prepaid expenses	2,510,805	2,915,878
Current tax assets	-	1,353,622
Total current assets	118,507,577	97,036,833
Non-current assets:		
Drilling and other equipment	83,194,619	98,569,594
Goodwill	8,876,351	8,876,351
Intangible assets	24,543,713	26,925,046
Deferred tax assets	18,418,152	14,828,714
Total non-current assets	135,032,835	149,199,705
Total assets	$ 253,540,412	$ 246,236,538
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	$ 4,747,954	$ 5,620,464
Trade and other payables	56,372,968	41,629,783
Current tax liabilities	2,297,611	-
Total current liabilities	63,418,533	47,250,247
Non-current liabilities:		
Loans and borrowings	5,000,000	14,000,000
Provision for onerous contracts	1,845,000	2,015,000
Deferred income	1,333,340	1,433,339
Total non-current liabilities	8,178,340	17,448,339
Equity:		
Share capital	265,932,957	266,838,036
Contributed surplus	10,463,819	9,315,926
Retained earnings	(107,029,570)	(106,438,399)
Accumulated other comprehensive income	12,576,333	11,822,389
Total equity	181,943,539	181,537,952
Total liabilities and equity	$ 253,540,412	$ 246,236,538

Consolidated Statements of Comprehensive Income/Loss

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2018	2017	**2018**	2017
Revenue	**$ 85,032,830**	$ 65,396,316	**$ 224,800,407**	$ 180,340,476
Direct costs	**69,477,782**	59,995,834	**197,795,786**	177,576,571
Gross profit	**15,555,048**	5,400,482	**27,004,621**	2,763,905
Expenses:				
Selling, general and administrative expenses	**12,983,042**	7,758,571	**30,765,451**	22,743,776
Research and development expenses	**836,752**	286,809	**2,506,363**	1,657,872
Finance expense	**264,046**	482,056	**929,017**	1,494,825
Other income	**(2,452,247)**	(3,305,599)	**(6,528,264)**	(3,040,009)
	11,631,593	5,221,837	**27,672,567**	22,856,464
Earnings (loss) before income taxes	**3,923,455**	178,645	**(667,946)**	(20,092,559)
Provision for (Recovery of) income taxes				
Current	**1,388,630**	(67,491)	**3,315,087**	230,911
Deferred	**(1,208,674)**	1,092,217	**(3,391,862)**	(1,921,982)
	179,956	1,024,726	**(76,775)**	(1,691,071)
Net income (loss)	**3,743,499**	(846,081)	**(591,171)**	(18,401,488)
Other comprehensive income (loss)				
Foreign currency translation	**(2,541,426)**	(3,340,547)	**753,944**	(5,672,877)
Total comprehensive income (loss) for the period	**$ 1,202,073**	$ (4,186,628)	**$ 162,773**	$ (24,074,365)
Earnings (Loss) per share – basic	**$ 0.06**	$ (0.01)	**$ (0.01)**	$ (0.32)
Earnings (Loss) per share – diluted	**$ 0.06**	$ (0.01)	**$ (0.01)**	$ (0.32)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2018	2017	**2018**	2017
Cash flows from operating activities:				
Net income (loss)	**$ 3,743,499**	$ (846,081)	**$ (591,171)**	$ (18,401,488)
Adjustments for:				
Depreciation and amortization	**9,505,407**	9,988,025	**29,612,677**	31,433,424
Provision for (Recovery of) income taxes	**179,956**	1,024,726	**(76,775)**	(1,691,071)
Unrealized foreign exchange loss (gain)	**(101,286)**	339,407	**(359,717)**	363,840
Gain on disposition of drilling equipment	**(2,358,209)**	(3,547,501)	**(6,209,463)**	(3,788,667)
Equity-settled share-based payments	**341,860**	700,803	**1,200,656**	2,218,672
Finance expense	**264,046**	482,056	**929,017**	1,494,825
Provision for (Recovery of) bad debts	**(7,553)**	123,360	**(15,441)**	375,260
Provision for inventory obsolescence	**49,049**	300,000	**256,157**	900,000
Provision for onerous contracts	**(122,000)**	(95,000)	**(270,000)**	(272,000)
Amortization of deferred income	**(33,333)**	(33,333)	**(99,999)**	(99,999)
Interest paid	**(93,951)**	(244,272)	**(441,842)**	(739,588)
Income taxes received (paid)	**(532,119)**	4,092,277	**(127,996)**	3,763,191
Change in non-cash working capital	**(4,808,355)**	(25,968,400)	**(7,934,636)**	(25,466,029)
Net cash from (used in) operating activities	**6,027,011**	(13,683,933)	**15,871,467**	(9,909,630)
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**3,197,615**	4,929,341	**11,165,720**	7,960,388
Acquisition of drilling and other equipment	**(8,066,652)**	(8,900,250)	**(15,831,277)**	(17,396,837)
Acquisition of intangible assets	**(26,135)**	(861,306)	**(32,733)**	(1,492,583)
Change in non-cash working capital	**2,459,181**	1,036,639	**1,259,571**	363,187
Net cash used in investing activities	**(2,435,991)**	(3,795,576)	**(3,438,719)**	(10,565,845)
Cash flows from financing activities:				
Proceeds from (Repayment of) loans and borrowings	**(4,000,000)**	10,872,000	**(9,000,000)**	(13,142,050)
Proceeds from (Repayment of) operating facility	**(1,500,675)**	3,988,889	**(872,510)**	(884,757)
Repurchase of shares under the NCIB	**(797,258)**	(33,350)	**(1,034,758)**	(33,350)
Proceeds from issuance of share capital	**76,916**	-	**76,916**	29,154,582
Net cash from (used in) financing activities	**(6,221,017)**	14,827,539	**(10,830,352)**	15,094,425
Net increase (decrease) in cash and cash equivalents	**(2,629,997)**	(2,651,970)	**1,602,396**	(5,381,050)
Cash and cash equivalents, beginning of period	**8,354,932**	4,278,213	**4,122,539**	7,007,293
Cash and cash equivalents, end of period	**$ 5,724,935**	$ 1,626,243	**$ 5,724,935**	$ 1,626,243