PHX
ENERGY SERVICES CORP.

Q1 2022

Quarterly Report

PHX Energy Services Corp.

First Quarter Report for the three-month periods ended March 31, 2022 and 2021

The following Management's Discussion and Analysis ("MD&A") of the financial condition, results of operations, and cash flow of PHX Energy Services Corp. ("PHX Energy" or the "Corporation") should be read in conjunction with the Corporation's 2021 annual report, including the MD&A, and audited consolidated financial statements and the accompanying notes contained therein as well as other sections contained within the Corporation's 2021 annual report, and the Corporation's 2022 unaudited interim first quarter report, including the unaudited condensed consolidated interim financial statements and the accompanying notes contained therein as well as other sections contained within the Corporation's 2022 first quarter report. Readers can also obtain additional information on the Corporation including its Information Circular and Annual Information Form ("AIF") filed on SEDAR at www.sedar.com. This MD&A has been prepared taking into consideration information available up to and including May 4, 2022.

PHX Energy's Interim Financial Report for the three-month periods ended March 31, 2022 and 2021 has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A and Interim Financial Report was reviewed by PHX Energy's Audit Committee and approved by PHX Energy's Board of Directors (the "Board") on May 4, 2022.

This MD&A contains Forward-Looking Information and Non-GAAP Financial Measures. Please refer to the "Cautionary Statement Regarding Forward-Looking Information and Statements" section below. Please refer to the "Non-GAAP Measures" section of this MD&A for applicable definitions and reconciliations.

First Quarter Highlights

- The Corporation's adjusted EBITDA[1] excluding share-based compensation increased to $18.4 million.
- Consolidated revenue of $112.1 million is the second highest first quarter revenue in the Corporation's history, an increase of 60 percent over the comparative 2021-quarter.
- PHX Energy's US division generated the highest quarterly revenue in the Corporation's history, $81.8 million, 73 percent of consolidated revenue.
- The 2022 capital expenditure program is now anticipated to be $85 million, which is targeted to be allocated towards expanding the fleet of premium equipment for increased forecasted activity in late 2022 and 2023.
- Quarterly dividend of $0.075 per common share was paid on April 18, 2022, which is triple the dividend per share declared in the first quarter of 2021.
- The Corporation maintained a strong financial position, with cash and cash equivalents less loans and borrowings equating to $7.5 million, and working capital[1] of $53.6 million.

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[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 of this MD&A.

- PHX Energy intends to protect and preserve its balance sheet strength, capitalize on unique growth strategies and continue to reward its shareholders.
- The Corporation recognized impairment and other write-offs of $2 million related to its Russian entity.

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

	Three-month periods ended March 31,		
	2022	2021	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**112,126**	70,106	60
Net earnings (loss)	**(4,223)**	4,865	n.m.
Earnings (loss) per share – diluted	**(0.09)**	0.10	n.m.
Adjusted EBITDA excluding share-based compensation (1)	**18,432**	16,632	11
Adjusted EBITDA excluding share-based compensation per share – diluted (1)	**0.37**	0.33	13
Adjusted EBITDA (1)	**6,360**	13,950	(54)
Adjusted EBITDA excluding share-based compensation as a percentage of revenue (1)	**16%**	24%	
Cash Flow			
Cash flows from (used in) operating activities	**(4,157)**	1,388	n.m.
Funds from operations (1)	**2,884**	11,331	(75)
Funds from operations per share – diluted (1)	**0.06**	0.22	(73)
Dividends paid per share	**0.05**	0.025	100
Dividends paid	**2,482**	1,266	96
Capital expenditures	**18,206**	6,890	164
Free cash flow (1)	**(3,720)**	7,732	n.m.
Financial Position (unaudited)	**Mar 31, '22**	Dec 31, '21	
Working capital (1)	**53,644**	57,872	(7)
Net Debt (1)	**(7,535)**	(24,829)	(70)
Shareholders' equity	**135,670**	134,432	1
Common shares outstanding	**50,367,051**	47,978,662	5

n.m. – not meaningful

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP Measures section of this MD&A.

Non-GAAP Measures

Throughout this MD&A, PHX Energy uses 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 excluding share-based compensation, adjusted EBITDA excluding share-based compensation per share, adjusted EBITDA excluding share-based compensation as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization and government grants, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, 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 MD&A for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Outlook

In the first quarter our operations generated strong operating results, supported by the continued industry growth and our premium suite of technology, Velocity, Atlas and PowerDrive Orbit RSS. We believe that the positive industry momentum will continue, and this environment provides a unique opportunity for us as we believe we are, and will continue to be, competitively positioned.

- We are one of a few providers who have a sizable fleet of premium technologies and the balance sheet strength to continue to grow capacity in an inflationary period.

- We are currently operating at fleet capacity and anticipate that our proactive capital strategy that began in 2021 will alleviate some of the strain on the fleet with past orders being delivered through 2022.

- Although our sector is competitive, the major Operators insist on utilizing only premium technologies. PHX possesses these technologies that drive drilling efficiencies and currently there is a shortage of this equipment in the entire sector due to high demand and supply chain disruptions.

- We have implemented strategies to mitigate some of the supply chain challenges, such as long lead times for materials and have had success offsetting inflationary cost. We will continue to implement efficiencies and strategies that can aid in protecting our margins.

- Our 2022 capital expenditures budget is expected to be $85 million, with the recently announced $37.3 million increase expected to be allocated toward purchasing up to 100 Atlas motors, 30 Velocity kits and additional PowerDrive Orbit RSS for delivery late in 2022 and into 2023.

- The intent of this increase is to equip our North American operations with more premium equipment to capture market share next year when we forecast there could be 1,000 rigs operating in North America.

- With 2022 capital expenditures weighted toward growth, we are projecting in 2023 the capital expenditures will be reduced and primarily focused on maintenance capital and growth, if opportunities arise.

- We will continue to maintain our strong financial position, with no or minimal bank debt and remain positioned to withstand future volatility.

- Rewarding our shareholders remains a priority and we are focused on operational strategies that allow us this ability in all industry cycles.

Given the favourable conditions and the successes of our technology development and financial management, we are cautiously pursuing future growth as we are optimistic about the opportunities that our strategic initiatives will create.

Michael Buker, President
May 4, 2022

Financial Results

Reporting the second highest first quarter revenue in the Corporation's history, PHX Energy's consolidated revenue in the first quarter of 2022 grew by 60 percent to $112.1 million from $70.1 million in the comparative 2021-quarter. As commodity prices continued to strengthen in the first quarter of 2022, rig counts in North America steadily increased and this, along with greater capacity in the Corporation's fleet of high performance technologies, drove increases to both consolidated operating activity and average revenue per day. The Corporation's consolidated activity levels increased by 44 percent to 7,144 operating days in the 2022-quarter relative to 4,972 operating days in the 2021-quarter, while PHX Energy's average consolidated revenue per day, excluding the motor rental division in the US, increased 10 percent in the 2022-quarter to $15,103 compared to $13,719 in the first quarter of 2021.

For the three-month period ended March 31, 2022, the Corporation reported a net loss of $4.2 million compared to a net income of $4.9 million in the 2021-quarter. Net loss in the 2022 three-month period included pre-tax share-based compensation expenses of $12.1 million (2021 - $2.7 million), and impairment and other write-offs of $2 million (2021 - nil) related to PHX Energy's Russian subsidiary. For the three-month period ended March 31, 2022, $11.4 million in retention award liabilities were settled in common shares issued from the trust. The Corporation's adjusted EBITDA excluding share-based compensation in the 2022-quarter increased to $18.4 million from $16.6 million in the 2021-quarter. Included in the 2021-quarter adjusted EBITDA excluding share-based compensation was $4 million of government grants. Excluding government grants, adjusted EBITDA excluding share-based compensation improved 46 percent, primarily due to improved revenue per day and activity across all the Corporation's segments.

For the three-month period ended March 31, 2022, PHX Energy's US division generated the highest quarterly revenue in the Corporation's history and this was driven by the demand for its premium high-performance technologies, specifically Velocity Real-Time System ("Velocity"), PowerDrive Orbit Rotary Steerable System ("RSS"), and Atlas High Performance Motors ("Atlas"). US revenue for the 2022-quarter was $81.8 million, a 54 percent increase over the $53.1 million generated in the 2021-quarter, and representing 73 percent of first quarter consolidated revenue. The Corporation's US drilling activity in the first quarter of 2022 rose to 4,046 operating days from 3,084 operating days in the 2021-quarter, an increase of 31 percent.

Similarly, PHX Energy's Canadian division's activity and revenue improved significantly in the first quarter with strong industry demand, particularly for PHX Energy's drilling expertise and technologies. The Corporation's Canadian segment revenue for the 2022-quarter was $27.1 million, an increase of 76 percent compared to $15.4 million in the 2021-quarter and operating days improved by 55 percent from 1,765 in the first quarter of 2021 to 2,730 operating days in the 2022-quarter.

As at March 31, 2022, the Corporation had loans and borrowings of USD $3 million. Cash and cash equivalents of $11.3 million less bank loans equated to $7.5 million (December 31, 2021 – $24.8 million). As at March 31, 2022, the Corporation's working capital was $53.6 million.

Dividends

In February of 2022, the Board approved a 50 percent increase to the Corporation's quarterly dividend effective for the dividend payable to shareholders of record at the close of business on March 31, 2022. On March 15, 2022, PHX Energy declared a cash dividend of $0.075 per common share and an aggregate of $3.8 million was paid on April 18, 2022.

Capital Spending

In the first quarter of 2022, the Corporation spent $18.2 million on capital expenditures, which is $11.3 million greater than the expenditures of $6.9 million in the 2021-quarter. Capital expenditures for the 2022-quarter were primarily directed towards Atlas motors, Velocity systems, and RSS. Of the total capital expenditures in the 2022-quarter, $13 million was spent on growing the Corporation's fleet of drilling equipment and the remaining $5.2 million was spent on maintenance of the current fleet of drilling and other equipment. The Corporation funded capital spending primarily using its cash and cash equivalents held at December 31, 2021 and its US operating facility.

As at March 31, 2022, the Corporation has commitments to purchase drilling and other equipment for $31.2 million, with delivery of these purchases expected to occur by the end of the 2022-year. Commitments include $6.3 million for Velocity systems, $20.7 million for performance drilling motors primarily relating to Atlas, and $4.2 million for RSS and other machinery and equipment. As previously announced, the Board approved to increase the 2022 capital expenditure program to $85 million to allow the Corporation to proactively order materials and equipment to expand its fleet for activity in late 2022 and into 2023. Given the current supply chain environment, lead times and costs are continuing to increase and the Corporation believes its ability to place advanced orders will create a competitive advantage.

The Corporation currently possesses approximately 511 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8" and 9" Atlas motors, 98 Velocity systems, and 39 PowerDrive Orbit RSS, the largest independent fleet in North America.

Responding to the 2022 Russian-Ukrainian War

On February 24, 2022, Russia invaded Ukraine with the goal of annexing the nation and preventing Ukraine from joining the North Atlantic Treaty Organization ("NATO"). Certain nations and respective governments reacted swiftly with significant economic sanctions against Russia inclusive of, but not limited to, capital restrictions, freezing of assets, import and export restrictions, and condemnation of commerce activities in Russia by non-Russian entities. The concerted economic pressures placed against Russia further exacerbated supply chain challenges, inflation, and disruption of commodities trade. The economic challenges may have significant impact on the Corporation including, but not exclusively:

- difficulty obtaining material and parts which could limit revenue and operating activities;
- increased risk of non-payment of accounts receivable and customer defaults in the Russian entity; and,
- volatility in revenue and expense forecasting.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time.

Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse and retroactive changes with respect to the Corporation's operations in Russia, require the Corporation to continuously assess its ongoing control of its Russian operations given the changing geopolitical situation including sanctions. There is no guarantee that additional liabilities or costs will not be incurred by the Corporation or that the Corporation will be able to realize all of its assets associated with its Russian operations.

PHX Energy is currently evaluating courses of action for Phoenix TSR LLC ("Phoenix TSR"), which includes extending the current suspension of any investments in the country and continuing to examine opportunities to sell, transfer or wind down the division, which is expected to occur in the second quarter of 2022 . Management has fully impaired the drilling and other equipment and has written-off inventories and certain accounts receivables owned by Phoenix TSR resulting in impairment and other write-offs of $2 million. The impact of the Russia operations today is immaterial to the consolidated results of the Corporation. Should the Russian entity be divested for nil consideration, approximately $0.9 million of remaining net assets will be written-off and $12.1 million of foreign exchange losses will be recognized in the Corporation's Consolidated Statements of Comprehensive Income (Loss).

Shares Held in Trust

For the three-month period ended March 31, 2022, the Corporation equity settled a portion of its outstanding Retention Awards ("RA") under its Retention Award Plan (the "RAP"). Pursuant to the RA settlement, 1,803,617 common shares were issued in the first quarter of the 2022-year to settle $11.4 million in RAP liabilities. The Corporation, through an independent trustee, continues to acquire common shares on the open market from time-to-time to settle future share-based compensation obligations. For the three-month period ended March 31, 2022, the trustee purchased 314,600 common shares for a total cost of $2 million. As at March 31, 2022, 173,520 common shares are held in trust for purposes of the RAP.

Normal Course Issuer Bid

During the third quarter of 2021, the 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 3,679,797 common shares, representing 10 percent of the Corporation's public float of common shares outstanding as at August 6, 2021. The NCIB commenced on August 16, 2021 and will terminate on August 15, 2022 or such earlier time as the NCIB is completed or terminated by PHX Energy. 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, an aggregate of 1,499,900 common shares were purchased by the Corporation and cancelled as at December 31, 2021. For the three-month period ending March 31, 2022, the Corporation did not repurchase shares through its current NCIB.

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

Responding to COVID-19

In the 2022-quarter, government responses to COVID-19 continued to have a material impact on businesses worldwide. Despite easing of restrictions by most governments which led to improved industry and economic conditions in the period, the situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time. Supply chain challenges continue to create shortages and inflation related to the products and services required within the energy sector, including within the Corporation's supply chain. PHX Energy has been proactive with efforts to lessen the supply chain disruptions' impact on its operations.

PHX Energy has and will continue to preserve a solid financial position and retain financial flexibility through substantial liquidity on its credit facilities. As at December 31, 2021, the Corporation has working capital(1) of $53.6 million and approximately CAD $65 million and USD $12 million available from its credit facilities. Additional information regarding the risks, uncertainties and impact on the Corporation's business can be found throughout this MD&A, including under the headings "Capital Spending", "Operating Costs and Expenses", "Segmented Information", and "Outlook".

About PHX Energy Services Corp.

PHX Energy is a growth oriented, public oil and natural gas services company. The Corporation, through its directional drilling subsidiary entities provides horizontal and directional drilling services to oil and natural gas exploration and development companies principally in Canada and the US. In connection with the services it provides, PHX Energy engineers, develops and manufactures leading-edge technologies. In recent years, PHX Energy has developed various new technologies that have positioned the Corporation as a technology leader in the horizontal and directional drilling services sector.

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

(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 of this MD&A.

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; Casper, Wyoming; Midland, Texas; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania and Russia, and administrative offices in Nicosia, Cyprus; and Luxembourg City, Luxembourg. The Corporation also operates the Middle East regions through an arrangement with National Energy Services Reunited Corp.

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

Results of Operations

Three-Month Period Ended March 31, 2022

Revenue

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2022	2021	% Change
Revenue	**112,126**	70,106	60

For the three-month period ended March 31, 2022, consolidated revenue increased 60 percent to $112.1 million as compared to $70.1 million in the 2021-quarter. In the first quarter of 2022, the average consolidated revenue per day, excluding the motor rental division in the US, increased 10 percent from $13,719 in the 2021-quarter to $15,103. The higher revenue per day was primarily driven by high performance technologies as PHX Energy continued to expand capacity and worked to increase pricing to partially offset the impact of inflation. The Corporation generated 7,144 consolidated operating days for the first quarter of 2022, which is 44 percent greater than the 4,972 operating days in the 2021-quarter. The US division continued to grow in the first quarter of 2022 and remained the dominant division representing 73 percent of consolidated revenue in the 2022-quarter (2021 – 76 percent). The Canadian division realized strong growth in revenue and activity as local energy producers ramped up operations in light of strong cash positions and prevailing oil prices.

Crude oil prices continued to rise in the 2022-quarter, with Western Texas Intermediate ("WTI") averaging USD $92/bbl (2021 – USD $58/bbl) and Western Canadian Select ("WCS") oil prices averaging USD $77/bbl (2021– USD $45/bbl). Concurrent with oil prices, rig counts in North America continued to rise. The US and Canadian industries showed a 61 percent and 33 percent improvement, respectively, in rig counts quarter-over-quarter. In the first quarter of 2022, there were 636 rigs operating per day (2021-quarter – 396 rigs) in the US and 193 rigs operating per day in Canada (2021-quarter – 145 rigs). Throughout North America the vast majority of wells continued to be horizontal and directional representing 99 percent of all wells drilled in Canada (2021 – 98 percent) and 96 percent of the average number of rigs operating per day in the US (2021 – 94 percent) (Sources: Baker Hughes).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2022	2021	% Change
Direct costs	**94,412**	56,153	68
Depreciation & amortization drilling and other equipment (included in direct costs)	**7,413**	6,232	19
Depreciation & amortization right-of-use asset (included in direct costs)	**836**	836	-
Gross profit as a percentage of revenue excluding depreciation & amortization and government grants[(1)]	**23%**	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, 2022, direct costs increased by 68 percent to $94.4 million from $56.2 million in the 2021-quarter. Higher direct costs are mainly attributable to increased activity across all divisions plus inflationary pressures impacting direct labour, equipment repair costs, and equipment rentals. In addition, no government grants were recognized in direct costs in the 2022-quarter whereas in the first quarter of 2021 there were $3.1 million in government grants.

The Corporation's depreciation and amortization on drilling and other equipment for the three-month period ended March 31, 2022, increased by 19 percent from $6.2 million to $7.4 million as capital expenditures progressively increased in the 2021-year and 2022-period.

In the first quarter of 2022, gross profit as a percent of revenue excluding depreciation and amortization and government grants[(1)] was 23 percent compared to 26 percent in the first quarter of 2021. The decrease in gross profitability in 2022 relative to the corresponding 2021-quarter is mainly due to inflationary pressures. In addressing inflation, management continues to take a proactive approach by leveraging volume purchases, quick pay discounts, and other strategies to soften the impact of rising material and service costs.

[(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 of this MD&A.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2022	2021	% Change
Selling, general and administrative ("SG&A") costs	**22,564**	9,384	140
Share-based compensation (included in SG&A costs)	**12,072**	2,682	n.m.
SG&A costs excluding share-based compensation as a percentage of revenue (1)	**9%**	10%	

n.m. – not meaningful

For the three-month period ended March 31, 2022, the Corporation's SG&A costs increased by 140 percent to $22.6 million as compared to $9.4 million in the 2021-period, which was primarily driven by higher share-based compensation expenses. Included in SG&A costs are share-based compensation expenses totaling $12.1 million in the 2022-quarter compared to $2.7 million in the 2021-quarter.

No government grants were recognized in SG&A in the first quarter of 2022 (2021 - $0.9 million). SG&A costs excluding share-based compensation as a percentage of revenue(1) for the three-month period ended March 31, 2022 were 9 percent (2021 – 10 percent).

Share-based compensation mainly relates to retention awards which are measured at fair value and the increase in the 2022-quarter was primarily due to increases in the Corporation's share price.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2022	2021	% Change
Research and development expense	**757**	560	35

Research and development ("R&D") expenditures for the three-month period ended March 31, 2022 was $0.8 million, a 35 percent increase as compared to $0.6 million in the 2021-quarter. PHX Energy's R&D focus continues to be on developing new technologies, improving the reliability of equipment, and reducing costs to operations. The higher R&D expenditures in the 2022 three-month period is primarily due to the increase of personnel related costs in the R&D department. R&D expenses for the quarter included $0.1 million of government grants (2021 – $21 thousand).

(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 of this MD&A.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2022	2021	% Change
Finance expense	**113**	164	(31)
Finance expense lease liability	**507**	548	(7)

Finance expense mainly relates to interest charges on the Corporation's long-term and short-term bank facilities. In the 2022-quarter, finance charges decreased by 31 percent to $0.1 million compared to $0.2 million in the 2021-quarter.

Finance expense lease liability relates to interest expenses incurred on lease liabilities and decreased by 7 percent in the period.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2022	2021
Net gain on disposition of drilling equipment	**(3,830)**	(2,820)
Foreign exchange loss	**49**	-
Other income	**(3,781)**	(2,820)

For the three-month periods ended March 31, 2022 and 2021, the Corporation recognized other income of $3.8 million and $2.8 million, respectively. In both periods, other income was mainly comprised of net gain on disposition of drilling equipment.

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 2022-quarter, more instances of downhole equipment losses occurred as compared to the 2021-quarter, resulting in higher net gain on disposition of drilling equipment.

The Corporation recognized foreign exchange losses of $49 thousand in the 2022-quarter (2021 - $nil) mainly due to the settlement of US-denominated payable in the Russia segment.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2022	2021	% Change
Impairment and other write-offs	**1,967**	-	n.m.

n.m. – not meaningful

Due to severe economic sanctions against Russia, the Corporation determined that indicators of impairment existed in its Russia segment. As a result of the restrictions impacting the Russian operations, the Corporation determined no further economic benefits are expected from the future use or future disposal of drilling and other equipment and inventory held by the Russian entity, Phoenix TSR. In addition, certain trade receivables were considered uncollectible. Drilling and other equipment were impaired and inventory and certain trade receivables were written-off resulting in impairment and other write-offs of $2 million (2021 - $nil).

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,	
	2022	2021
Provision for (recovery of) income taxes	**(190)**	1,251
Effective tax rates	**4%**	20%

For the three-month period ended March 31, 2022, the Corporation reported an income tax recovery of $0.2 million as compared to a provision for income tax expense of $1.3 million in the 2021-quarter. Lower provision in the 2022-period was mainly a result of lower taxable profits in the US jurisdictions. The change in tax expense (recovery) was also impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdiction.

Segmented Information

The Corporation reports four 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; internationally mainly in Albania; and Russia.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2022	2021	% Change
Revenue	**27,139**	15,446	76
Reportable segment profit before tax (1)	**3,494**	2,326	50

(1) Includes adjustments to intercompany transactions.

PHX Energy's Canadian revenue for the three-month period ended March 31, 2022 increased by 76 percent to $27.1 million from $15.4 million in the corresponding 2021-period. The improvement was primarily the result of a significantly higher volume of activity during the 2022-quarter versus the comparable 2021-period. The Canadian segment reported 2,730 operating days in the first quarter of 2022, a 55 percent increase from the 1,765 days in the 2021-quarter. PHX Energy's growth outpaced the industry, where the total industry horizontal and directional drilling activity, as measured by drilling days, increased by 36 percent in the 2022-quarter to 16,539 days from 12,144 days in the 2021-quarter (Source: Daily Oil Bulletin). The Canadian market remained highly competitive even with the increased industry activity. Late last year, some of the pricing concessions made due to the COVID-19 pandemic started to ease and this continued in the 2022-quarter. In addition, the Corporation has been pursuing pricing increases in order to recuperate inflationary costs. As a result, PHX Energy's average revenue per day increased by 14 percent to $9,931 in the 2022-quarter from $8,743 in the comparable 2021-period.

With a higher volume of active rigs operating in 2022, the Canadian division continued to be a prominent player in this market, maintaining its market share and a well-diversified client base. During the 2022-quarter, PHX Energy was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, and Scallion basins.

The Canadian operations' reportable segment profit before tax for the first quarter of 2022 was $3.5 million as compared to $2.3 million in the 2021-quarter. Excluding the impact from government grants, reportable segment profit before tax improved from $0.7 million in the first quarter of 2021 to $3.5 million in the first quarter of 2022.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2022	2021	% Change
Revenue	**81,795**	53,101	54
Reportable segment profit (loss) before tax [(1)]	**6,445**	7,221	(11)

[(1)] Includes adjustments to intercompany transactions.

The US industry continues to provide significant growth opportunities for the Corporation. In the first quarter of 2022, the US operations' momentum continued, recording the highest level of quarterly divisional revenue in the Corporation's history. For the three-month period ended March 31, 2022, revenue grew 54 percent to $81.8 million from $53.1 million in the corresponding 2021-quarter. Operating days increased by 31 percent to 4,046 days in the 2022-quarter from 3,084 days in the 2021-quarter. In the first quarter of 2022, the number of horizontal and directional rigs running per day rose by 64 percent from an average of 371 horizontal and directional rigs running per day during the 2021-quarter to 609 in the 2022-quarter (Source: Baker Hughes). For the three-month period ended March 31, 2022, the average revenue per day, excluding the Corporation's US motor rental division, rose to $19,179 from $16,612 in the 2021-quarter, an increase of 15 percent. The increase in the average revenue per day primarily relates to the Corporation's high-performance technologies and pricing adjustments as management continued to manage inflationary pressures. In the first quarter of 2022, PHX Energy further expanded its fleet of premium technologies in the US, particularly the number of PowerDrive Orbit RSS, adding 6 systems during the period to ended the quarter with a fleet of 39.

Horizontal and directional drilling represented 96 percent of the industry's average number of rigs running on a daily basis during the first quarter of 2022, which was consistent with the percentage in the 2021-quarter. For the three-month period ended March 31, 2022, the Corporation's US division was active in the Permian, Eagle Ford, SCOOP/STACK, Marcellus, Bakken, and Niobrara basins.

In the 2022-quarter, the Corporation realized reportable segment income before tax of $6.4 million compared to $7.2 million in the 2021-quarter. The decrease in profitability in the US segment mainly resulted from the absence of government grants in the 2022-quarter (2021 - USD $1.9 million) and inflationary pressures impacting labour, material, and service costs. Excluding the impact of government grants, reportable segment income before tax would have increased by 34 percent in the three-month period of 2022.

International

(Stated in thousands of dollars)

	Three-month periods March 31,		
	2022	2021	% Change
Revenue	**397**	-	n.m.
Reportable segment loss before tax	**(163)**	(327)	(50)

n.m. – not meaningful

The Corporation's International segment revenue, which is comprised of revenue from Albania, increased to $0.4 million in the 2022-quarter from $nil in the 2021-quarter. PHX Energy's Albania operations resumed activity late in the first quarter of 2022 with one rig and 20 operating days. The International segment's reportable segment loss before tax decreased by 50 percent to $0.2 million in the 2022-quarter as compared to $0.3 million in the 2021-quarter.

Russia

(Stated in thousands of dollars)

	Three-month periods March 31,		
	2022	2021	% Change
Revenue	**2,796**	1,559	79
Reportable segment loss before tax	**(152)**	(479)	(68)

PHX Energy's Russian operations also saw an improvement in revenue primarily due to higher operating days. For the three-month period ended March 31, 2022, operating days increased 181 percent to 348 days from 124 days in the relevant 2021-quarter. The Russian operations' reportable segment loss before tax decreased by 68 percent to $0.2 million in the 2022-quarter as compared to $0.5 million in the 2021-quarter.

Due to the impact of global economic sanctions against Russia, impairment and other write-offs of $2 million have been recognized in the Russian entity. Despite impairing the assets of Phoenix TSR, as at March 31, 2022, management continued to operate in the region to provide for its employees during this difficult time as it evaluates alternative courses of action for the Russia operations. Management has suspended any investments in and shipments to Russia.

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Mar-22	**Dec-21**	**Sept-21**	**Jun-21**	Mar-21	Dec-20	Sept-20	Jun-20
Revenue	**112,126**	**105,428**	**96,548**	**77,838**	70,106	56,838	39,776	46,769
Earnings (loss)	**(4,223)**	**8,652**	**4,829**	**4,379**	4,865	1,954	(1,505)	(4,899)
Earnings (loss) per share – basic	**(0.09)**	**0.18**	**0.10**	**0.08**	0.10	0.04	(0.03)	(0.09)
Earnings (loss) per share – diluted	**(0.09)**	**0.17**	**0.09**	**0.08**	0.10	0.04	(0.03)	(0.09)
Dividends paid	**2,482**	**2,505**	**1,260**	**1,260**	1,266	-	-	-
Cash and cash equivalents	**11,284**	**24,829**	**24,917**	**21,026**	23,468	25,746	18,889	14,628
Operating facility	**-**	**-**	**-**	**-**	-	-	-	-
Loans and borrowings	**3,749**	**-**	**-**	**-**	-	-	-	-

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2022	2021
Funds from operations[1]	**2,884**	11,331

	Mar. 31, '22	Dec. 31, '21
Working capital[1]	**53,644**	57,872

Due to significantly higher share-based compensation expenses and an overall increase in costs, the Corporation's profitability declined in the first quarter of 2022, and as a result, funds from operations decreased to $2.9 million as compared to $11.3 million in the 2021-quarter.

As at March 31, 2022, the Corporation had working capital of $53.6 million, which is $4.3 million lower than the $57.9 million reported at December 31, 2021. The decrease to working capital at March 31, 2022 was primarily due to higher trade and other payables resulting from the increase in capital expenditures.

[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 of this MD&A.

Cash Flow and Dividends

In December 2020, PHX Energy reinstated a quarterly dividend program. The Board will continually review the dividend program and take into consideration, without limitation, the Corporation's financial performance, forecasted activity levels and the industry outlook. The actual amount of future quarterly dividends, if any, remains subject to the approval of and declaration by the Board. The Board reviews the Corporation's dividend policy in conjunction with their review of quarterly financial and operating results. The Corporation's ability to maintain the current level of dividends to its shareholders is dependent upon the realization of cash flow from operations, among other considerations, and if the Corporation does not meet its budgeted cash flow from operations, dividends to shareholders may be reduced or suspended entirely.

In February of 2022, the Board approved a 50 percent increase to the Corporation's quarterly dividend effective for the dividend payable to shareholders of record at the close of business on March 31, 2022. On March 15, 2022, PHX Energy declared a cash dividend of $0.075 per common share and an aggregate of $3.8 million was paid on April 18, 2022.

Investing Activities

PHX Energy used net cash in investing activities of $9.4 million in the first quarter of 2022 compared to $0.8 million in the 2021-quarter. In the first quarter of 2022, the Corporation received proceeds of $5.5 million (2021 - $3.8 million) from the disposition of drilling equipment, primarily related to the involuntary disposal of drilling equipment in well bores. Additionally, the Corporation spent $18.2 million on capital expenditures in the first quarter of 2022 (2021 - $6.9 million). These expenditures included:

- $8 million downhole performance drilling motors,
- $9.6 million in MWD systems and spare components and RSS; and
- $0.6 million in machinery and equipment and other assets.

The capital expenditure program undertaken in the period was primarily financed from cash and cash equivalents and the US operating facility. Of the total capital expenditures in the 2022-quarter, $13 million was used to grow the Corporation's fleet of drilling equipment and the remaining $5.2 million was used to maintain the current fleet of drilling and other equipment.

During the three-month period ended March 31, 2022, the Corporation acquired intangible assets in the amount of $0.4 million (2021 - $nil).

The change in non-cash working capital balances of $3.6 million (source of cash) for the three-month period ended March 31, 2022, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $2.3 million (source of cash) for the three-month period ended March 31, 2021.

Financing Activities

For the three-month period ended March 31, 2022, net cash from financing activities was $50 thousand as compared to $2.9 million used in financing activities in the same 2021 period. In the 2022-period:

- 314,600 common shares were purchased by an independent trustee in the open market for $2 million to be held in trust for the potential future settlement of restricted awards granted under the Corporation's RAP;
- dividends of $2.5 million were paid to shareholders;
- payments of $0.9 million were made towards lease liability;
- 899,372 common shares were issued from treasury for proceeds of $1.6 million upon the exercise of share options; and,
- $3.7 million was drawn against the US operating facility.

Capital Resources

As of March 31, 2022, the Corporation had nothing drawn on its syndicated facility, USD $3 million drawn on its US operating facility, and a cash balance of $11.3 million. As at March 31, 2022, the Corporation had approximately CAD $65 million and USD $12 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, 2022, 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 April 14, 2022, the Corporation announced an increase to its 2022 capital expenditure program from $47.7 million to $85 million. The increase is primarily dedicated to growing the Velocity, RSS and Atlas fleets to meet increased demand anticipated in late 2022 and 2023.

These planned expenditures are expected to be financed from cash flow from operations, cash and cash equivalents, and / or the Corporation's unused credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at March 31, 2022, the Corporation has commitments to purchase drilling and other equipment for $31.2 million. Majority of the delivery is expected to occur within the second half of 2022.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at March 31, 2022 and 2021.

Proposed Transactions

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

Critical Accounting Estimates and Judgments

The consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Corporation's significant accounting policies are described in its annual audited consolidated financial statements for the year ended December 31, 2021.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

On February 24, 2022, Russia invaded Ukraine with the goal of annexing the nation and preventing Ukraine from joining the North Atlantic Treaty Organization ("NATO"). Certain nations and respective governments reacted swiftly with significant economic sanctions against Russia inclusive of, but not limited to, capital restrictions, freezing of assets, import and export restrictions, and condemnation of commerce activities in Russia by non-Russian entities. The concerted economic pressures placed against Russia further exacerbated supply chain challenges, inflation, and disruption of commodities trade. The economic challenges may have significant impact on the Corporation including, but not exclusively:

- difficulty obtaining material and parts which could limit revenue and operating activities;
- increased risk of non-payment of accounts receivable and customer defaults in the Russian entity; and,
- volatility in revenue and expense forecasting.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time.

Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse and retroactive changes with respect to the Corporation's operations in Russia, require the Corporation to continuously assess its ongoing control of its Russian operations given the changing geopolitical situation including sanctions. There is no guarantee that additional liabilities or costs will not be incurred by the Corporation or that the Corporation will be able to realize all of its assets associated with its Russian operations.

In preparing the condensed consolidated interim financial statements, the significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2021.

Changes in Accounting Policies

The condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2021, unless specified.

Business Risk Factors

The business risk factors applicable to the Corporation have not materially changed since December 31, 2021. Refer to the "Business Risk Factors" section of the MD&A in PHX Energy's 2021 annual report as well as in the Corporation's most recent Annual Information Form filed on SEDAR at www.sedar.com.

Corporate Governance

This MD&A has been prepared by the management of PHX Energy and it has been reviewed and approved by the Audit Committee and the Board of the Corporation. Additional information relating to the Corporation's Corporate Governance can be found in the Corporation's AIF and in its Information Circular in respect of its annual meeting of Shareholders, each of which are annually filed on SEDAR at www.sedar.com.

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to the Corporation's management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls Over Financial Reporting

The Corporation's Certifying Officers have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Corporation. ICFR includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the annual financial statements or interim financial reports.

The control framework used to design and evaluate the Corporation's ICFR is "Internal Control - Integrated Framework (2013)" published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

There were no changes in the Corporation's ICFR that occurred during the period beginning on January 1, 2022 and ended on March 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provide a reasonable level of assurance and are effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Outstanding Corporation Share Data

(In thousands of shares)	**As at May 4, 2022**
Common shares outstanding, excluding shares held in trust	50,367,051
Common shares held in trust [1]	173,520
Total common shares outstanding	50,540,571
Dilutive securities:	
Options	1,500,000
Corporation shares – diluted	52,040,571

[1] Common Shares held in trust by an independent trustee for the potential future settlement of awards granted to eligible participant's under the Corporation's Retention Award Plan

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 and other write-offs, loss on remeasurement, severance payouts relating to the Corporation's restructuring cost, 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.

Adjusted EBITDA excluding share-based compensation is calculated by adding share-based compensation to adjusted EBITDA.

The following is a reconciliation of net earnings to adjusted EBITDA and adjusted EBITDA excluding share-based compensation:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2022	2021
Net earnings (loss):	**(4,223)**	4,865
Add:		
Depreciation and amortization drilling and other equipment	**7,413**	6,232
Depreciation and amortization right-of-use asset	**836**	836
Provision for (recovery of) income taxes	**(190)**	1,251
Finance expense	**113**	164
Finance expense lease liability	**507**	548
Unrealized foreign exchange (gain) loss	**(63)**	54
Impairment and other write-offs	**1,967**	-
Adjusted EBITDA	**6,360**	13,950
Add:		
Share-based compensation	**12,072**	2,682
Adjusted EBITDA excluding share-based compensation	**18,432**	16,632

Adjusted EBITDA excluding share-based compensation 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 excluding share-based compensation per share - dilutive is based on the adjusted EBITDA excluding share-based compensation as reported in the table above divided by the diluted number of shares outstanding.

Adjusted EBITDA excluding share-based compensation as a percentage of revenue is calculated by dividing the adjusted EBITDA excluding share-based compensation as reported in the table above by revenue as stated on the Consolidated Statements of Comprehensive Income (Loss).

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,	
	2022	2021
Cash flows from (used in) operating activities	**(4,157)**	1,388
Add (deduct):		
Changes in non-cash working capital	**7,194**	9,879
Interest paid	**52**	52
Income taxes paid (received)	**(205)**	12
Funds from operations	**2,884**	11,331

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 - diluted is based on the funds from operations as reported in the table above divided by the diluted number of shares outstanding.

Free Cash Flow

Free cash flow is defined as funds from operations (as defined above) 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. This performance measure is useful to investors for assessing the Corporation's operating and financial performance, leverage and liquidity. 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 cash flows from operating activities to free cash flow:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2022	2021
Cash flows from (used in) operating activities	**(4,157)**	1,388
Add (deduct):		
Changes in non-cash working capital	**7,194**	9,879
Interest paid	**52**	52
Income taxes paid (received)	**(205)**	12
Maintenance capital expenditures	**(5,238)**	(2,259)
Cash payment on leases	**(1,366)**	(1,340)
Free cash flow	**(3,720)**	7,732

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.

The following is a reconciliation of current assets and current liabilities to working capital:

(Stated in thousands of dollars)

		As at:
	March 31, 2022	December 31, 2021
Current assets	**145,952**	141,159
Deduct:		
Current liabilities	**(92,309)**	(83,287)
Working capital	**53,644**	57,872

Net Debt

Net debt is defined as the Corporation's operating facility and loans and 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 net debt to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating net debt 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 operating facility, loans and borrowings, and cash and cash equivalents to net debt:

(Stated in thousands of dollars)

	As at:	
	March 31, 2022	December 31, 2021
Operating facility	**-**	-
Loans and borrowings	**3,749**	-
Total loans and borrowings	**3,749**	-
Deduct:		
Cash and cash equivalents	**(11,284)**	(24,829)
Net debt	**(7,535)**	(24,829)

Gross Profit as a Percentage of Revenue Excluding Depreciation & Amortization and Government Grants

Gross profit as a percentage of revenue excluding depreciation & amortization and government grants is defined as the Corporation's gross profit excluding depreciation and amortization and government grants divided by revenue and is used to assess operational profitability. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. PHX Energy's method of calculating gross profit as a percentage of revenue 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 revenue, direct costs, depreciation and amortization, government grants and gross profit to gross profit as a percentage of revenue excluding depreciation and amortization and government grants:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2022	2021
Revenue	**112,126**	70,106
Direct costs	**94,412**	(56,153)
Gross profit	**17,714**	13,953
Depreciation & amortization drilling and other equipment (included in direct costs)	**7,413**	6,232
Depreciation & amortization right-of-use asset (included in direct costs)	**836**	836
Government grants	**-**	(3,051)
	25,963	17,970
Gross profit as a percentage of revenue excluding depreciation & amortization and government grants	**23%**	26%

SG&A Costs Excluding Share-Based Compensation as a Percentage of Revenue

SG&A costs excluding share-based compensation as a percentage of revenue is defined as the Corporation's SG&A costs excluding share-based compensation divided by revenue and is used to assess the impact of administrative costs excluding the effect of share price volatility. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. PHX Energy's method of calculating SG&A costs excluding share-based compensation as a percentage of revenue 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 SG&A costs, share-based compensation, and revenue to SG&A costs excluding share-based compensation as a percentage of revenue:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2022	2021
SG&A Costs	**22,564**	9,384
Deduct:		
Share-based compensation	**(12,072)**	(2,682)
	10,492	6,702
Revenue	**112,126**	70,106
SG&A costs excluding share-based compensation as a percentage of revenue	**9%**	10%

SG&A costs excluding share-based compensation and government grants as a percentage of revenue is defined as the Corporation's SG&A costs excluding share-based compensation and government grants as quantified in the respective periods divided by revenue.

Definitions

When the Corporation refers to operating days throughout this document, it is referring to the billable days on which PHX Energy is providing services to the client at the rig site. Average operating revenue per day is calculated by dividing revenue by the number of operating days. Average consolidated revenue per day is calculated by dividing consolidated revenue by the consolidated number of operating days.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

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

- The potential for further impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto;
- The potential for further impact of the Russian-Ukrainian war on the Corporation's operations, results and the Corporation's planned responses thereto, including continuing to examine opportunities to sell, transfer or wind down the division, which is expected to occur in the second quarter of 2022;
- Anticipated continuation of the Corporation's quarterly dividend program and the amounts of dividends;
- The projected capital expenditures budget for 2022 of $85 million, and how the budget will be allocated and funded;
- Equipment on order as at March 31, 2022 is expected to be delivered by the end of 2022;
- Planned expenditures are expected to be financed primarily by funds from operations. However, if a sustained period of market and commodity price uncertainty and financial market volatility persists in 2022, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, in which event the proceeds from borrowing may be required to fund operations, and the expenditure level would be reduced accordingly;
- The anticipated impact of global supply chain disruptions on the Corporation's operations, results, and the Corporation's planned responses thereto;
- The anticipated increased demand for the Corporation's services and high-performance technologies in North America; and,

- The potential future settlement of restricted and performance awards in common shares that were purchased by an independent trustee in the open market for such purposes and the expectation that the majority of future settlements will be settled in common shares.

The above are stated under the headings: “Financial Results”, “Responding to COVID-19”, “Responding to the 2022 Russian-Ukrainian War”, “Capital Spending”, “Dividend”, “Shares Held in Trust”, “Segmented Information”, “Liquidity”, and “Cash Requirements for Capital Expenditures”. In addition, all information contained under the headings “Responding to COVID-19”, “Critical Accounting Estimates”, “Business Risk Factors” and “Outlook” sections of this MD&A may contains forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this MD&A and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the continuing impact of COVID-19 and the Russian-Ukrainian war 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 financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Corporation’s operations and financial results are included in reports on file with the Canadian Securities Regulatory Authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation’s website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Condensed Consolidated Statements of Financial Position

(unaudited)		**March 31, 2022**		December 31, 2021 *(Adjusted - Note 7f)*
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**11,283,545**	$	24,828,830
Trade and other receivables		**90,200,873**		76,478,093
Inventories		**40,600,980**		36,691,141
Prepaid expenses		**3,537,767**		2,814,272
Current tax assets		**329,298**		346,554
Total current assets		**145,952,463**		141,158,890
Non-current assets:				
Drilling and other equipment (Note 5)		**84,398,890**		76,363,001
Right-of-use asset		**25,426,781**		25,708,177
Intangible assets		**15,997,488**		16,137,024
Investments		**3,000,500**		3,000,500
Deferred tax assets		**105,601**		126,133
Total non-current assets		**128,929,260**		121,334,835
Total assets	**$**	**274,881,723**	$	262,493,725
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Trade and other payables (Note 7f)	**$**	**85,544,239**	$	77,571,887
Lease liability		**2,974,006**		3,232,503
Dividends payable (Note 7d)		**3,790,543**		2,482,060
Total current liabilities		**92,308,788**		83,286,450
Non-current liabilities:				
Lease liability		**32,550,123**		32,638,819
Loans and borrowings (Note 6)		**3,748,800**		-
Deferred tax liability		**9,193,288**		9,346,426
Other (Note 7f)		**1,410,686**		2,789,786
Total non-current liabilities		**46,902,897**		44,775,031
Equity:				
Share capital (Note 7a)		**249,330,905**		235,463,414
Contributed surplus		**7,015,849**		9,462,091
Deficit		**(129,585,775)**		(121,721,790)
Accumulated other comprehensive income		**8,909,059**		11,228,529
Total equity		**135,670,038**		134,432,244
Total liabilities and equity	**$**	**274,881,723**	$	262,493,725

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited)	Three-month periods ended March 31,	
	2022	2021
Revenue	**$ 112,126,412**	$ 70,105,791
Direct costs	**94,412,201**	56,152,697
Gross profit	**17,714,211**	13,953,094
Expenses:		
Selling, general and administrative expenses	**22,564,305**	9,384,384
Research and development expenses	**756,559**	560,101
Finance expense	**113,108**	164,156
Finance expense lease liability	**507,016**	548,474
Other income (Note 8)	**(3,780,655)**	(2,820,253)
Impairment and other write-offs (Note 9)	**1,966,848**	-
	22,127,181	7,836,862
Earnings (loss) before income taxes	**(4,412,970)**	6,116,232
Provision for (Recovery of) income taxes		
Current	**(188,079)**	7,755
Deferred	**(1,946)**	1,243,457
	(190,025)	1,251,212
Net earnings (loss)	**(4,222,945)**	4,865,020
Other comprehensive loss		
Foreign currency translation	**(2,319,470)**	(1,181,371)
Total comprehensive earnings (loss) for the period	**$ (6,542,415)**	$ 3,683,649
Earnings (loss) per share – basic	**$ (0.09)**	$ 0.10
Earnings (loss) per share – diluted	**$ (0.09)**	$ 0.10

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

Three-month period ended March 31, 2022	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total Equity
Balance, December 31, 2021	**47,978,662**	**$ 235,463,414**	**$ 9,462,091**	**$ 11,228,529**	**$ (121,721,790)**	**$ 134,432,244**
Issuance of share capital on exercise of options	**899,372**	**1,642,187**	**-**	**-**	**-**	**1,642,187**
Issuance of share capital from trust on settlement of retention awards	**1,803,617**	**11,444,348**	**-**	**-**	**-**	**11,444,348**
Common shares purchased and held in trust	**(314,600)**	**(2,000,000)**	**-**	**-**	**-**	**(2,000,000)**
Share-based payments	**-**	**-**	**334,714**	**-**	**-**	**334,714**
Fair value of options exercised	**-**	**2,780,956**	**(2,780,956)**	**-**	**-**	**-**
Net loss	**-**	**-**	**-**	**-**	**(4,222,945)**	**(4,222,945)**
Foreign currency translation, net of tax	**-**	**-**	**-**	**(2,319,470)**	**-**	**(2,319,470)**
Dividends	**-**	**-**	**-**	**-**	**(3,641,040)**	**(3,641,040)**
Balance, March 31, 2022	**50,367,051**	**$ 249,330,905**	**$ 7,015,849**	**$ 8,909,059**	**$ (129,585,775)**	**$ 135,670,038**

Three-month period ended March 31, 2021	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total Equity
Balance, December 31, 2020	50,625,920	$ 247,543,263	$ 10,131,786	$ 11,296,987	$ (136,939,398)	$ 132,032,638
Net issuance of share capital	225,267	395,271	-	-	-	395,271
Common shares repurchased	(460,888)	(1,204,133)	-	-	-	(1,204,133)
Share-based payments	-	-	68,501	-	-	68,501
Fair value of options exercised	-	231,614	(231,614)	-	-	-
Net earnings	-	-	-	-	4,865,020	4,865,020
Foreign currency translation, net of tax	-	-	-	(1,181,371)	-	(1,181,371)
Dividends	-	-	-	-	(1,259,758)	(1,259,758)
Balance, March 31, 2021	50,390,299	$ 246,966,015	$ 9,968,673	$ 10,115,616	$ (133,334,136)	$ 133,716,168

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)	Three-month periods ended March 31, 2022	2021
Cash flows from operating activities:		
Earnings (loss) from continuing operations	**$ (4,222,945)**	$ 4,865,020
Adjustments for:		
Depreciation and amortization drilling and other equipment	**7,412,544**	6,232,149
Depreciation and amortization right-of-use asset	**836,046**	835,899
Provision for (recovery of) income taxes	**(190,025)**	1,251,212
Unrealized foreign exchange loss (gain)	**(63,208)**	54,460
Gain on disposition of drilling equipment	**(3,830,074)**	(2,819,611)
Equity-settled share-based payments	**334,714**	68,501
Finance expense	**113,108**	164,156
Provision for inventory obsolescence	**527,017**	679,343
Interest paid	**(52,235)**	(52,304)
Income taxes received (paid)	**205,356**	(12,339)
Impairment and other write-offs (Note 9)	**1,966,848**	-
Change in non-cash working capital	**(7,194,617)**	(9,878,408)
Net cash from (used in) operating activities	**(4,157,471)**	1,388,078
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**5,544,740**	3,785,322
Acquisition of drilling and other equipment	**(18,206,230)**	(6,889,517)
Acquisition of intangible assets	**(411,275)**	-
Change in non-cash working capital	**3,635,012**	2,304,501
Net cash used in investing activities	**(9,437,753)**	(799,694)
Cash flows from financing activities:		
Proceeds from loans and borrowings	**3,748,800**	-
Proceeds from issuance of share capital	**1,642,187**	395,271
Purchase of shares held in trust	**(2,000,000)**	-
Dividends paid to shareholders	**(2,482,060)**	(1,265,648)
Payments of lease liability	**(858,988)**	(791,366)
Repurchase of shares under the NCIB	**-**	(1,204,133)
Net cash from (used in) financing activities	**49,939**	(2,865,876)
Net decrease in cash and cash equivalents	**(13,545,285)**	(2,277,492)
Cash and cash equivalents, beginning of period	**24,828,830**	25,745,911
Cash and cash equivalents, end of period[1]	**$ 11,283,545**	$ 23,468,419

[1] As at March 31, 2022, $0.8 million of cash and cash equivalents were restricted.

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2022 and 2021

In Canadian dollars (unaudited)

1. Reporting Entity

PHX Energy Services Corp. ("PHX Energy" or the "Corporation") is a publicly-traded Corporation listed on the Toronto Stock Exchange ("TSX") under the symbol "PHX". The Corporation's registered office is at Suite 1400, 250 – 2nd Street SW Calgary, Alberta Canada.

The Corporation, through its subsidiaries, provides horizontal and directional drilling services to oil and natural gas exploration and development companies in Canada, United States, Russia (Note 2(d), 5 and 9), Albania and the Middle East regions through an arrangement with National Energy Services Reunited Corp. The Corporation also develops and manufactures technologies that are made available for internal operational use.

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

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended December 31, 2021.

These condensed consolidated interim financial statements were authorized by the Board of Directors on May 4, 2022.

b) Basis of Measurement

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

c) Functional and Presentation Currency

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

d) Use of Estimates and Judgments

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

On February 24, 2022, Russia invaded Ukraine with the goal of annexing the nation and preventing Ukraine from joining the North Atlantic Treaty Organization ("NATO"). Certain nations and respective governments reacted swiftly with significant economic sanctions against Russia inclusive of, but not limited to, capital restrictions, freezing of assets, import and export restrictions, and condemnation of commerce activities in Russia by non-Russian entities. The concerted economic pressures placed against Russia further exacerbated supply chain pressures, inflation, and disruption of commodities trade. The economic challenges may have significant impact on the Corporation including, but not exclusively:

- difficulty obtaining material and parts which could limit revenue and operating activities;
- increased risk of non-payment of accounts receivable and customer defaults in the Russian entity; and,
- volatility in revenue and expense forecasting.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time. Estimates and judgements made by Management in the preparation of the condensed consolidated interim financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse and retroactive changes with respect to the Corporation's operations in Russia, require the Corporation to continuously assess its ongoing control of its Russian operations given the changing geopolitical situation including sanctions. There is no guarantee that additional liabilities or costs will not be incurred by the Corporation or that the Corporation will be able to realize all of its assets associated with its Russian operations. See further discussion in Notes 5 and 9.

In preparing these condensed consolidated interim financial statements, the significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2021 other than the assessment of control over subsidiaries.

3. Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2021, unless specified.

4. Operating Segments

The Corporation provides directional and horizontal oil and natural gas well drilling services. PHX Energy's reportable segments have been aligned as follows:

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		International		Russia		Total	
Three-month periods ended March 31,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Total Revenue	**27,139**	15,446	**81,795**	53,101	**397**	-	**2,795**	1,559	**112,126**	70,106
Reportable segment profit (loss) before income taxes	**3,494**	2,326	**6,445**	7,221	**(163)**	(327)	**(152)**	(479)	**9,624**	8,741

(Stated in thousands of dollars)

	Canada		United States[1]		International		Russia		Total	
As at March 31,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Drilling and other equipment	**17,350**	14,658	**66,403**	53,211	**646**	528	**-**	1,875	**84,399**	70,272

(1) March 31, 2022 includes USD $1 million of drilling and other equipment physically located in the Middle East region as part of a technology arrangement (2021 - $nil).

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2022	2021
Reportable segment income before income taxes	**9,624**	8,741
Corporate:		
Selling, general and administrative expenses	**14,474**	4,173
Research and development expenses	**757**	560
Finance expense	**113**	164
Finance expense lease liability	**507**	548
Impairment and other write-offs	**1,967**	-
Other income	**(3,781)**	(2,820)
Earnings (loss) before income taxes	**(4,413)**	6,116

5. Drilling and Other Equipment

a) Re-assessment of Cash-Generating Units

Cash-generating units ("CGUs") shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

As at March 31, 2022, due to the impact of the Russian-Ukrainian war and the sanctions levied against Russia, the Corporation conducted an analysis of its CGUs and determined that the assets of the International CGU can no longer be grouped together given the divergence of the risk profile of the assets among other considerations. As such, at March 31, 2022, Management determined that the Corporation has the following CGUs: 1) Canada; 2) United States; 3) International; and 4) Russia. Accordingly, the assets related to the Russian entity, Phoenix TSR LLC ("Phoenix TSR") have been reclassified to its own CGU, Russia, for purpose of impairment assessment.

b) Impairment of Russian Drilling and Other Equipment

At March 31, 2022, the Corporation determined indicators of impairment existed in the Russia CGU due to economic sanctions levied against Russia by various nations among other factors arising from the Russian-Ukrainian war and wrote-off all of the Corporation's drilling and other equipment in Russia totaling approximately $0.4 million.

c) Acquisitions and Disposals

During the three-month period ended March 31, 2022, the Corporation acquired assets with a cost of $18.2 million (2021 - $6.9 million).

Assets with a carrying amount of $1.7 million (2021 - $1 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $3.8 million (2021 - $2.8 million), which is included in other income in the condensed consolidated statements of comprehensive income (loss).

d) Capital Commitments

As at March 31, 2022, the Corporation has commitments to purchase drilling and other equipment for $31.2 million, delivery is expected to occur by the end of the 2022-year.

6. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at March 31, 2022**	Currency	Carrying Amount at December 31, 2021
Operating Facility	CAD	15,000	Due on demand	CAD	**-**	CAD	-
Syndicated Facility	CAD	50,000	December 12, 2023	CAD	**-**	CAD	-
US Operating Facility	USD	15,000	December 12, 2023	USD	**3,000**	USD	-

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at March 31, 2022, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**March 31, 2022**
Debt to covenant EBITDA	< 3.0x	**0.08**
Interest coverage ratio	>3.0x	**103.77**

The facilities bear interest based primarily on the Corporation’s debt to earnings before interest, taxes, depreciation and amortization (“EBITDA”) ratio, as defined in the credit agreement. Interest is at the bank’s prime rate plus 0.5 percent.

As at March 31, 2022 the Corporation has CAD $65 million and USD $12 million available to be drawn from its credit facilities.

The credit facilities are secured by substantially all of the Corporation's assets.

7. Share Capital

a) Authorized and Issued Shares

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

	Number		Amount
Balance as at January 1, 2021	50,625,920	$	247,543,263
Common shares repurchased and cancelled	(1,960,788)		(7,979,601)
Common shares repurchased and held in trust	(1,662,537)		(7,500,000)
Issued shares pursuant to share option plan	976,067		3,399,752
Balance as at December 31, 2021	47,978,662	$	235,463,414
Common shares repurchased and held in trust	**(314,600)**		**(2,000,000)**
Issued shares pursuant to retention awards plan	**1,803,617**		**11,444,348**
Issued shares pursuant to share option plan	**899,372**		**4,423,143**
Balance as at March 31, 2022	**50,367,051**	**$**	**249,330,905**

b) Share Option Program (Equity-Settled)

PHX Energy has a share option program that entitles key management personnel and other employees to purchase common shares in the Corporation. Grants under the plan vest as to one-third 6 months from the grant date, one-third 18 months from grant date and one-third 30 months from grant date. In accordance with these programs, options are exercisable using the five-day weighted-average trading price of the common shares ending immediately prior to the date of grant, or in the case of a US option holder, the trading price of the common shares ending immediately prior to the date of grant. The options have a term of five years.

Summary of option grants in 2022

Number		Exercise Price	Expiration Date		Fair Value
150,000	$	6.08	March 4, 2027	$	1.91
100,000		6.16	March 4, 2027		1.89
250,000					

The Corporation values all of its share options using the Black-Scholes model. The Corporation's determination of fair value of options on the date of grant is affected by the Corporation's share price as well as assumptions regarding a number of variables. For the options granted during 2022 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 54 percent, forfeiture rate of nil, dividend yield of 4.89 percent and a risk-free interest rate of 1.4 percent. The amounts computed according to the Black-Scholes model method may not be indicative of the actual values realized upon the exercise of these options by the holders.

During the three-month period ended March 31, 2022, a total of 1,047,800 options granted in 2017 were net equity-settled through issuance of 342,972 common shares. Total compensation expense related to stock options recognized for the three-month period ended March 31, 2022 was $0.3 million (2021 - $69 thousand).

A summary of the status of the plan is presented below:

	March 31, 2022		December 31, 2021	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**2,854,200**	**$ 3.15**	3,345,267	$ 3.01
Granted	**250,000**	**6.11**	500,000	2.70
Exercised	**(556,400)**	**2.95**	(976,067)	2.40
Forfeited / cancelled	**(1,047,800)**	**4.08**	(15,000)	4.15
Outstanding, end of period	**1,500,000**	**3.08**	2,854,200	3.15
Options exercisable, end of period	**833,330**	**2.41**	2,437,530	3.25

The range of exercise prices for options outstanding at March 31, 2022 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	0.94 yrs	1.95	50,000	1.95
200,000	0.94 yrs	2.00	200,000	2.00
100,000	2.93 yrs	2.09	66,666	2.09
150,000	2.93 yrs	2.19	99,999	2.19
200,000	3.93 yrs	2.64	66,666	2.64
300,000	3.93 yrs	2.74	99,999	2.74
200,000	1.94 yrs	2.81	200,000	2.81
50,000	1.94 yrs	2.83	50,000	2.83
150,000	4.93 yrs	6.08	-	6.08
100,000	4.93 yrs	6.16	-	6.16
1,500,000	3.10 yrs	$ 3.08	833,330	$ 2.41

c) Retention Award Plan

The retention award plan has two types of awards: Restricted Awards (“RAs”) and Performance Awards (“PAs”) and results in eligible participants receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired in the open market are held in trust for the potential settlement of RA and PA award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlements. For the three-month period ended March 31, 2022, the trustee purchased 314,600 common shares (2021 – nil) for a total cost of $2 million (2021 - $nil) and released 1,803,617 common shares (2021 – nil) to settle retention award obligations of $11.4 million (2021 - $nil). As at March 31, 2022, the Corporation held 173,520 common shares in trust (2021 – nil). The Corporation continues to account for its retention award plan as cash-settled share-based compensation.

RAs vest evenly over a period of three-years. Upon vesting and subsequent exercise, the holder is entitled to receive a cash payment or common shares based on the fair value of the underlying shares determined using the five-day weighted-average trading price of the shares ending immediately prior to the exercise date plus accrued re-invested dividends.

PAs vesting and subsequent exercise is similar to RAs, except a payout multiplier is applied to the final payout. The payout multiplier is linked solely to total shareholder return on the Corporation's common shares relative to returns on securities of members of the Corporation's peer comparison group over the applicable vesting period and can range from a payout of zero percent to 200 percent. For the three-month period ended March 31, 2022, 750,000 PAs were granted (2021 – 750,000), 774,152 PAs settled at a weighted average payout multiplier of 200 percent (2021 – 757,184), no PAs were forfeited (2021 - nil), and, as at March 31, 2022, 1,521,696 PAs were outstanding (2021 – 1,507,184).

The Corporation recorded a total of $11.7 million compensation expense relating to this plan for the quarter ended March 31, 2022 (2021 – $2.6 million). The expense is included in selling, general and administrative expense and has a corresponding liability included in trade and other payables. There were 3,505,340 RAs and PAs outstanding as at March 31, 2022 (2021 – 3,498,566).

A summary of the status of the plan is presented below:

	March 31, 2022	December 31, 2021
RAs and PAs outstanding, beginning of period	**3,267,579**	3,487,297
Granted	**1,581,350**	1,666,514
Settled	**(1,343,589)**	(1,808,415)
Forfeited / cancelled	**-**	(77,817)
RAs and PAs outstanding, end of period	**3,505,340**	3,267,579

d) Dividends

On March 15, 2022, the Corporation declared a dividend of $0.075 per share or $3.8 million, payable on April 18, 2022.

e) Normal Course Issuer Bid

During the third quarter of 2021, the 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 3,679,797 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 6, 2021. The NCIB commenced on August 16, 2021 and will terminate on August 15, 2022. 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, 1,499,900 common shares were purchased by the Corporation and cancelled as at December 31, 2021. For the three-month period ending March 31, 2022, the Corporation did not repurchase shares through its current NCIB.

The Corporation's previous NCIB commenced on August 14, 2020 and terminated on August 13, 2021. Pursuant to the previous NCIB, 3,131,388 common shares were repurchased and cancelled by the Corporation of which 460,888 were repurchased and cancelled in 2021.

f) Prior Period Adjustment

During the three-month period ended March 31, 2022, the Corporation identified that the classification of the cash-settled liability awards between current and long-term liabilities was not correct. As a result, the Corporation adjusted the December 31, 2021 statement of financial position to reclassify $2.8 million of liabilities from current (trade and other payables) to long-term (other non-current liabilities).

8. Other Income

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2022	2021
Gain on disposition of drilling equipment	**(3,830)**	(2,820)
Foreign exchange loss	**49**	-
Other income	**(3,781)**	(2,820)

9. Impairment and Other Write-Offs of Russian Assets

At March 31, 2022, the Corporation determined indicators of impairment existed in the Russia CGU due to economic sanctions levied against Russia by various nations among other factors arising from the Russian-Ukrainian war and reported an impairment loss of approximately $0.4 million relating to the write-off of the Corporation's drilling and other equipment in Russia (see Note 5).

Due to trade sanctions imposed by certain nations, Phoenix TSR is unable to dispose of inventories through the normal course of operations. Accordingly, all inventories in the amount of $0.6 million have been written-off. In addition, the Corporation recognized losses of $989 thousand related to certain trade receivables of Phoenix TSR.

10. Fair Values of Financial Instruments

The Corporation has designated its trade and other payables, dividends payable, and loans and borrowings as non-derivative financial liabilities carried at amortized cost. Cash and cash equivalents and trade and other receivables are designated as non-derivative financial assets measured at amortized cost. The Corporation's carrying values of these items approximate their fair value due to the relatively short periods to maturity of the instruments.

Equity investments in a company are designated as non-derivative financial assets measured at Fair Value Through Other Comprehensive Income ("FVOCI") as the investment is not held-for-trading and fair value changes are not reflective of the Corporation's operations. The investment asset is carried at fair value on the Consolidated Statement of Financial Position. Fair value will be considered level 3 under the fair value hierarchy and will require management to assess information available, which may include private placements, available financial statement information and other available market data.

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Karen David-Green

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta