FIRST QUARTER **2019**

PHX Energy Services Corp.

First Quarter Report for the Three-Month Periods Ended March 31, 2019 and 2018

Financial Results

PHX Energy's consolidated revenue in the first quarter of 2019 grew by 30 percent to $92.1 million from $70.8 million in the comparative 2018-quarter. The Corporation's consolidated activity levels increased by 4 percent to 7,025 operating days in the 2019-quarter relative to 6,769 operating days in the 2018-quarter. PHX Energy's consolidated revenue per day, excluding the motor rental division in the US and Stream division, increased 22 percent in the 2019-quarter to $12,447 compared to $10,182 revenue per day in the first quarter of 2018. In the first quarter of 2019 adjusted EBITDA increased to $11.4 million from $6.8 million in the 2018-quarter. The 69 percent improvement in profitability was primarily due to improved revenue per day in the Corporation's US and Canadian segments as well as increased activity in the US segment. Adjusted EBITDA was higher despite higher cash-settled share-based payments totaling $2.9 million in the 2019-quarter as compared to $46 thousand recognized in the corresponding 2018-quarter. Increases to the Corporation's cash-settled share-based payments were primarily due to the Corporation's share price being higher in the 2019-quarter. The positive impact of the adoption of IFRS 16 Leases to adjusted EBITDA for the three-month period ended March 31, 2019 was $1.4 million.

For the three-month period ended March 31, 2019, PHX Energy's US division generated the second highest quarterly revenue since the fourth quarter of 2014. US revenue for the 2019-quarter was $63.0 million, representing 68 percent of first quarter consolidated revenue and a 65 percent increase over the $38.1 million generated in the 2018-quarter. The Corporation continued growing its US revenue by promoting its high performance technologies, specifically Velocity Real-Time System ("Velocity"), PowerDrive Orbit Rotary Steerable System ("RSS"), and Atlas High Performance Motors ("Atlas"). The Corporation's US drilling activity in the first quarter of 2019 rose to 3,749 operating days from 2,713 operating days in the 2018-quarter, an increase of 38 percent. In comparison, US industry activity, as measured by the average rigs operating per day, increased by 8 percent to 1,043 in the first quarter of 2019 from 966 in the 2018-quarter (Source: Baker Hughes).

Continued market instability, the Alberta government's production curtailments and prolonged industry challenges in Canada continued to impact the Corporation's Canadian operations during the first quarter. PHX Energy's Canadian segment's operating days declined by 19 percent from 3,382 in the first quarter of 2018 to 2,737 operating days in the 2019-quarter. In comparison, the industry experienced a 35 percent decline in horizontal and directional drilling days. The Corporation's Canadian segment revenues for the 2019-quarter were $24.9 million, a decrease of 11 percent compared to $28.0 million in the 2018-quarter.

As at March 31, 2019, the Corporation had loans and borrowings of $19.0 million as well as operating facility borrowings of $8.8 million. These debt items less cash and cash equivalents of $4.0 million resulted in net debt of $23.7 million (December 31, 2018 - $21.5 million). As at March 31, 2019 the Corporation's working capital was $63.3 million.

Capital Spending

The Corporation spent $11.3 million on capital expenditures in the first quarter of 2019, which is $8.2 million more than the expenditures in the 2018-quarter which were $3.1 million. Capital expenditures for the 2019-quarter were primarily directed towards Atlas motors, Velocity systems, collars, and other machine and equipment. The Corporation funded capital spending through net cash flows from operations and drawings from the Corporation's operating and syndicated loan facilities.

As at March 31, 2019, the Corporation has commitments to purchase drilling and other equipment for $10.7 million, with delivery of these purchases expected to occur by the end of 2019. Commitments include $7.4 million for Velocity systems and $3.3 million for performance drilling motors primarily relating to Atlas.

On April 8, 2019, the Corporation announced an increase to its 2019 capital expenditure program from $15 million to $25 million. The increase to the capital expenditure program was primarily dedicated to increasing the capacity of the Velocity fleet for activity in early 2020. The remainder of the increase to the capital expenditure program is anticipated to be allocated toward maintenance of the Velocity and performance motor drilling fleets, including Atlas motors.

Normal Course Issuer Bid

During the third quarter of 2018, the Toronto Stock Exchange ("TSX") approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 2,915,311 common shares, representing 5 percent of the outstanding common shares at the time the NCIB was renewed. The NCIB commenced on August 8, 2018 and will terminate on August 7, 2019. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the NCIB, 1,926,600 common shares have been purchased and cancelled by the Corporation as at May 2, 2019, of which 357,500 common shares were purchased and cancelled in the second half of 2018, 229,500 common shares were purchased and cancelled in the first quarter of 2019, and the remaining 1,339,600 common shares were purchased and cancelled subsequent to March 31, 2019.

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

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

	Three-month periods ended March 31,		
	2019	2018	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**92,121**	70,759	30
Net loss	**(1,067)**	(4,251)	(75)
Loss per share – diluted	**(0.02)**	(0.07)	(71)
Adjusted EBITDA (1)	**11,431**	6,768	69
Adjusted EBITDA per share – diluted (1)	**0.19**	0.11	73
Adjusted EBITDA as a percentage of revenue (1)	**12%**	10%	
Cash Flow			
Cash flows from operating activities	**9,699**	936	n.m
Funds from operations (1)	**10,100**	5,757	75
Funds from operations per share – diluted (1)	**0.17**	0.10	70
Capital expenditures	**11,307**	3,067	n.m
Financial Position (unaudited)	**Mar. 31, '19**	Dec 31, '18	
Working capital (1)	**63,281**	60,316	5
Long-term debt	**19,009**	11,821	61
Shareholders' equity	**158,099**	168,414	(6)
Common shares outstanding	**57,779,220**	57,963,720	-

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

n.m. – not meaningful

Non-GAAP Measures

PHX Energy uses throughout this MD&A certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP"). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA per share, debt to covenant EBITDA, funds from operations, funds from operations per share 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 and reconciliations.

Management's Discussion and Analysis

The following MD&A of the financial condition, results of operations, and cash flow of PHX Energy Services Corp. ("PHX Energy" or the "Corporation") should be read in conjunction with the Corporation's 2018 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 2018 annual report, and the Corporation's 2019 unaudited interim first quarter report, including the unaudited condensed consolidated financial statements and the accompanying notes contained therein as well as other sections contained within the Corporation's 2019 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 2, 2019.

PHX Energy's Interim Financial Report for the three-month periods ended March 31, 2019 and 2018 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 on May 2, 2019.

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:

- As at March 31, 2019, the Corporation has commitments to purchase drilling and other equipment for $10.7 million, with delivery of these purchases expected to occur by the end of 2019.
- On April 8, 2019, the Corporation announced an increase to its 2019 capital expenditure program from $15 million to $25 million. The increase to the capital expenditure program was primarily dedicated to increasing the capacity of the Velocity fleet for activity in early 2020. The remainder of the increase to the capital expenditure program is anticipated to be allocated toward maintenance of the Velocity and performance motor drilling fleets, including Atlas motors.
- Planned capital expenditures are expected to be financed from a combination of one or more of the following: cash flow from operations, the Corporation's unused credit facilities or equity, if necessary.

The above are stated under the headings: "Capital Spending" and "Cash Requirements for Capital Expenditures". In addition, statements regarding the expected impact of adopting Changes in Accounting Policies and all information contained within, Business Risk and Outlook section of this report contains forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this MD&A and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; exchange and interest rates; 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.

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Russia and Albania. PHX Energy also provides electronic drilling recorder ("EDR") technology and services.

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

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

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

Results of Operations

Three-Month Period Ended March 31, 2019

Revenue

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Revenue	**92,121**	70,759	30

For the three-month period ended March 31, 2019, consolidated revenue increased 30 percent to $92.1 million as compared to $70.8 million in the 2018-quarter. In the first quarter of 2019 the average consolidated revenue per day, excluding the motor rental division in the US and Stream division, increased 22 percent from $10,182 in the 2018-quarter to $12,447. The higher revenue per day primarily resulted from premiums and surcharges related to high performance technologies and from the strengthening of the US dollar in 2019 relative to the same period in 2018. The Corporation generated 7,025 consolidated operating days for the first quarter of 2019, which is 4 percent greater than the 6,769 operating days in the 2018-quarter. Both revenue and activity growth was led by the US operations and US revenue represented 68 percent of consolidated revenue in the 2019-quarter (2018 – 54 percent).

Crude oil prices recovered from the decline that occurred in the fourth quarter of 2018, with Western Texas Intermediate ("WTI") averaging USD $55/bbl in the first quarter of 2019 (2018-quarter – USD $63/bbl) and Western Canadian Select ("WCS") oil prices averaging CAD $57/bbl (2018-quarter – CAD $49/bbl). However, despite the trend in the respective oil prices the industry activity levels in the Canadian and US industries continued to be on divergent paths. The US industry showed an 8 percent improvement in rig counts quarter-over-quarter whereas Canada experienced a 32 percent decline in the rig count. In the first quarter of 2019, there were 1,043 rigs operating per day (2018-quarter – 966 rigs) in the US and 181 rigs operating per day in Canada (2018-quarter – 267 rigs). Throughout North America the vast majority of wells continued to be horizontal and directional representing 93 percent of all wells drilled in Canada and 94 percent of the average number of rigs operating per day in the US (Sources: Daily Oil Bulletin and Baker Hughes).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2019	2018	% Change
Direct costs	**78,790**	65,929	20
Gross profit as a percentage of revenue	**14%**	7%	
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,167**	10,306	(1)
Depreciation & amortization right-of-use asset (included in direct costs)	**867**	-	n.m
Gross profit as percentage of revenue excluding depreciation & amortization	**26%**	21%	

n.m. – not meaningful

Direct costs are comprised of field and shop expenses, and include depreciation and amortization on the Corporation's equipment and right-of-use assets. Depreciation on right-of-use assets relate to the impact of adopting IFRS 16 Leases as at January 1, 2019, which required capitalizing the Corporation's office, shop and vehicle leases. For the three-month period ended March 31, 2019, direct costs were $78.8 million, which is a 20 percent increase over the direct costs of $65.9 million in the 2018-quarter. The rise in the Corporation's direct costs mainly relates to higher field labour rates and a greater number of motor repair expenses.

Gross profit as a percent of revenue excluding depreciation and amortization increased to 26 percent in the 2019-quarter from 21 percent in the relevant 2018-quarter. Improved profitability was primarily a result of higher drilling activity in the US segment, as well as, improved revenue per day in the Canadian and US segments. The Corporation has continued its disciplined approach in respect to cost management in the 2019-quarter, which also aided in improved margins.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2019	2018	% Change
Selling, general & administrative ("SG&A") costs	**13,202**	8,771	51
Cash-settled share-based payments (included in SG&A costs)	**2,935**	46	n.m.
Equity-settled share-based payments (included in SG&A costs)	**184**	460	(60)
Onerous contracts lease payment	**-**	(128)	n.m.
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	**11%**	12%	

n.m. – not meaningful

For the three-month period ended March 31, 2019, the Corporation's SG&A costs increased by 51 percent to $13.2 million as compared to $8.8 million in the 2018-period, which was primarily driven by higher cash-settled-share-based payments. Included in SG&A costs are cash-settled and equity-settled share-based payments totaling $2.9 million and $0.2 million, respectively, in the 2019-quarter relative to $46 thousand and $0.5 million in the 2018-quarter, respectively.

Cash-settled share based retention awards are measured at fair value and the increase in the 2019-quarter was primarily due to increases in the Corporation's share price.

Equity-settled share-based payments relate to the amortization of the fair values of issued options by the Corporation using the Black-Scholes model. For the three-month period ended March 31, 2019, equity-settled share-based payments decreased as a result of previously granted options that fully vested in the 2018-year.

Due to adoption of IFRS 16 Leases as of January 1, 2019, onerous contracts lease payments are no longer recorded.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Research & development expense	**900**	870	3

Research and development ("R&D") expenditures for both the first quarter of 2019 and 2018 were $0.9 million. R&D costs mainly relate to personnel costs in the R&D departments. PHX Energy continues to develop and expand services by focusing R&D efforts on developing new technology, improving reliability of equipment, and decreasing costs to operations.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Finance expense	**384**	340	13
Finance expense lease liability	**646**	-	n.m

n.m. – not meaningful

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. In the 2019-quarter finance charges rose by 13 percent to $0.4 million relative to the $0.3 million in the 2018-quarter. The increase in the finance expense is primarily due to higher long-term loans outstanding in the first quarter of 2019 as compared to the 2018-quarter, resulting from larger capital expenditures in the fourth quarter of 2018 and the first quarter of 2019.

Finance expense lease liability relates to interest expenses incurred on lease liabilities, as a result of the adoption of IFRS 16 Leases in 2019.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Net gain on disposition of drilling equipment	**(1,280)**	(779)
Foreign exchange (losses) gains	**265**	(128)
Provision for (Recovery of) bad debts	**47**	(8)
Other income	**(968)**	(915)

For the three-month period ended March 31, 2019, the Corporation recognized other income of $1.0 million as compared to $0.9 million in the relevant 2018-quarter. Other income is primarily 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 2019-quarter, more downhole equipment losses occurred as compared to the 2018-quarter, resulting in higher other income. Gains were partially offset by changes to realized and unrealized foreign exchange in the respective periods.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,	
	2019	2018
Provision for income taxes	**234**	14
Effective tax rates	**n.m.**	n.m.

n.m. – not meaningful

The provision for income taxes for the three-month period ended March 31, 2019 was $0.2 million as compared to $14 thousand in the 2018-quarter and was impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdiction.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Revenue	**24,864**	**27,975**	(11)
Reportable segment profit before tax	**1,254**	**1,511**	(17)

For the three-month period ended March 31, 2019, PHX Energy's Canadian revenue was $24.9 million a decrease of 11 percent from $28.0 million in the corresponding 2018-period. The Canadian segment experienced decreases to drilling activity as market instability continued and production cuts were imposed by the Alberta government beginning January 1, 2019 as a response to weak WCS prices prior to the first quarter of 2019. The Canadian segment reported 2,737 operating days in the first quarter of 2019, a 19 percent decrease from the 3,382 days in the 2018-quarter. Due to the Corporation's strong position in this market, PHX Energy's activity levels did not decline as drastically as the overall industry, which saw 35 percent horizontal and direction operating days. There were 14,737 industry horizontal and directional drilling days in the 2019-quarter as compared to 22,509 days in the 2018-quarter (Source: Daily Oil Bulletin). Partially offsetting the negative volume impacts to revenue was PHX Energy's average revenue per day, which increased by 9 percent to $8,555 in the 2019-quarter as compared to $7,881 revenue per day in the same 2018-period (excluding Stream revenue of $1.5 million and $1.3 million, respectively).

During the 2019-quarter, 53 percent of the Canadian division's activity was oil well drilling and PHX Energy was active in the Montney, Wilrich, Bakken, Shaunavon, Duvernay, Cardium, Ellerslie, Glauconite and Viking areas.

Due to lower volumes of activity in the 2019-quarter, PHX Energy's Canadian division reportable segment profit before tax declined to $1.3 million in the 2019-quarter as compared to $1.5 million in the 2018-quarter. The impact of lower drilling activity to the reportable segment profit was softened by improved revenue per day in the 2019-quarter relative to the same corresponding 2018-quarter.

Stream Services

Included in the Canadian segment's revenue for the three-month period ended March 31, 2019 is $1.5 million of revenue generated by the Stream division compared to $1.3 million in the same 2018-period. Stream's operating days improved in the first quarter of 2019 and it generated 2,925 operating days relative to 1,919 days in the first quarter of 2018. The increase in EDR activity was partially offset by a decrease to Stream's average revenue per day, which was $497 in the 2019-quarter as compared to $689 in the 2018-quarter. The increase in operating days and decrease in the average revenue per day in the 2019-quarter was primarily due to a higher share of lower rate services being provided.

For the three-month period ended March 31, 2019, the Stream division's reportable losses before tax was $0.4 million as compared to $1.1 million in the relevant 2018-quarter. Improved profitability was primarily due to increased operating days as well as disciplined cost management in the 2019-quarter.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2019	2018	% Change
Revenue	**62,996**	38,067	65
Reportable segment income (loss) before tax	**2,396**	(4,168)	n.m.

n.m. – not meaningful

The US industry continues to provide significant growth opportunities to PHX Energy. In the first quarter the US operations' momentum continued, achieving the second highest level of quarterly revenue since the fourth quarter of 2014. For the three-month period ended March 31, 2019, revenue grew 65 percent to $63.0 million from $38.1 million in the corresponding 2018-quarter. Operating days increased by 38 percent to 3,749 days in the 2019-quarter from 2,713 days in the 2018-quarter. PHX Energy's strong growth outpaced the industry where activity gains slowed slightly. In the first quarter of 2019 the number of horizontal and directional rigs running per day rose by 9 percent from an average of 903 horizontal and directional rigs running per day during the 2018-quarter to 982 in the 2019-quarter (Source: Baker Hughes). For the three-month period ended March 31, 2019, the average revenue per day, excluding the Corporation's US motor rental division, rose to $15,943 from $13,846 in the 2018-quarter, an increase of 15 percent. The US denominated average revenue per day increased by 8 percent in the 2019-quarter as compared to the same 2018-quarter. The increase in the average revenue per day primarily relates to the premium and surcharges for the Corporation's high performance technologies.

Horizontal and directional drilling represented 94 percent of the industry's average number of rigs running on a daily basis during the first quarter of 2019, which was consistent with the percentage in the 2018-quarter. For the three-month period ended March 31, 2019, all of the US operating division's activity was oil well drilling, as measured by wells drilled and excluding the motor rental and gyro surveying divisions. The Permian basin represents 45 percent of all active rigs operating in the US today and during the first quarter of 2019 approximately 79 percent of Phoenix USA's activity was focused in this area. In addition the Corporation was active in the Eagle Ford, Bakken, Mississippian/Woodford, Marcellus, Niobrara and Utica basins (Source: Baker Hughes).

The Corporation realized reportable segment income before tax in the 2019-quarter of $2.4 million compared to losses of $4.2 million in the relevant 2018-quarter. The profitable operations in the US segment mainly resulted from increases to operating days and revenue per day in the 2019-quarter over those achieved in the 2018-quarter.

International

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,		
	2019	2018	% Change
Revenue	**4,261**	4,717	(10)
Reportable segment loss before tax	**(105)**	(360)	(71)

The Corporation's international segment revenue decreased by 10 percent to $4.3 million in the 2019-quarter from $4.7 million in the 2018-quarter primarily due to lower activity in Russia. For the three-month period ended March 31, 2019, operating days decreased by 20 percent to 539 days as compared to 675 days in the 2018-quarter. The international segment's reportable segment loss before tax improved by 71 percent to a loss of $0.1 million in the 2019-quarter as compared to a loss of $0.4 million in the 2018-quarter. This improvement was primarily due to increased activity in Albania and greater measurement while drilling ("MWD") rental revenue in Russia. PHX Energy generated 5 percent of its consolidated revenue from its international operations in the 2019-quarter versus 7 percent in the same 2018-period.

PHX Energy's Russian operations saw a decline in revenue primarily due to lower operating days. For the three-month period ended March 31, 2019, operating days dropped 54 percent to 291 days from 634 days in the relevant 2018-quarter. PHX Energy's Russian division experienced a reduction to activity from some of its key clients, however, lower activity in the region was partially offset by higher MWD rental services, which is a higher margin business.

PHX Energy's Albania operations continued its momentum coming out of the 2018-year operating 3 rigs for the full 2019-quarter as compared to one rig in operation in the latter half of the comparable 2018-quarter. Operating days increased six-fold to 248 days from 41 days in the 2018-quarter.

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17	Jun-17
Revenue	**92,121**	92,335	85,033	69,009	70,759	60,660	65,396	53,822
Net earnings (loss)	**(1,067)**	(18,355)	3,743	(84)	(4,251)	(5,126)	(846)	(10,412)
Earnings (Loss) per share – basic	**(0.02)**	(0.32)	0.06	-	(0.07)	(0.09)	(0.01)	(0.18)
Earnings (Loss) per share – diluted	**(0.02)**	(0.32)	0.06	-	(0.07)	(0.09)	(0.01)	(0.18)
Adjusted EBITDA [(1)]	**11,431**	14,736	13,934	10,013	6,768	4,684	11,689	(13)
Funds from operations[(1)]	**10,100**	12,803	11,461	7,158	5,757	2,490	8,436	113

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

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

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Funds from operations [(1)]	**10,100**	5,757

	Mar. 31, '19	Dec. 31, '18
Working capital [(1)]	**63,281**	60,316

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

Due to improved activity and profitability in the US segment the Corporation in the first quarter of 2019 achieved funds from operations of $10.1 million, as compared to $5.8 million in 2018-quarter.

As at March 31, 2019, the Corporation had working capital of $63.3 million, which is $3.0 million higher than the $60.3 million reported at December 31, 2018. The increase to working capital at March 31, 2019 was primarily due to lower trade and other payables due to timing of cash payments in the first quarter of 2019 and repayment to the Corporation's operating facility.

Investing Activities

PHX Energy used net cash in investing activities of $10.5 million in the first quarter of 2019 compared to $2.4 million in the 2018-quarter. In the first quarter of 2019, the Corporation received proceeds of $2.5 million (2018 - $2.7 million) from the disposition of drilling equipment, primarily related to the involuntary disposal of drilling equipment in well bores. Additionally, the Corporation spent $11.3 million on capital expenditures in the first quarter of 2019 (2018 - $3.1 million). These expenditures included:

- $7.6 million downhole performance drilling motors,
- $2.5 million in MWD systems and spare components; and
- $1.2 million in collars, machining and equipment, vehicles and other assets.

The capital expenditure program undertaken in the period was financed from funds from operations and drawdowns on credit facilities.

During the three-month period ended March 31, 2019, the Corporation had no acquisitions in intangible assets (2018 - $3,696).

The change in non-cash working capital balances of $1.8 million (use of cash) for the three-month period ended March 31, 2019, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $2.0 million (use of cash) for the three-month period ended March 31, 2018.

Financing Activities

The Corporation reported cash flows generated from financing activities of $1.2 million in the three-month period ended March 31, 2019 as compared to $1.8 million in the comparable 2018-quarter. In the 2019-quarter:

- the Corporation drew net proceeds of $2.6 million from its operating and syndicated facilities,
- the Corporation made payments of $0.8 million towards lease liability in line with the newly adopted IFRS 16 Leases standard,
- under the Corporation's NCIB, $0.7 million was spent on repurchase of common shares; and
- 45,000 common shares were issued for proceeds of $0.1 million upon the exercise of share options.

Capital Resources

As of March 31, 2019, the Corporation had $19.0 million drawn on its syndicated facility, $8.8 million drawn on its operating facility, and a cash balance of $4.0 million. As at March 31, 2019, the Corporation had approximately CAD $39.2 million and USD $2.0 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at March 31, 2019, 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 8, 2019, the Corporation announced an increase to its 2019 capital expenditure program from $15 million to $25 million. The increase to the capital expenditure program was primarily dedicated to increasing the capacity of the Velocity fleet for activity in early 2020, with the remainder of the increase anticipated to be allocated toward maintenance of the Velocity and performance motor drilling fleets, including Atlas motors.

These planned expenditures are expected to be financed from a combination of one or more of the following: cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2019, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Off-Balance Sheet Arrangements

The Corporation had no off-balance sheet arrangements as at March 31, 2019 and 2018.

Proposed Transactions

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

Critical Accounting Estimates

The consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Corporation's significant accounting policies are described in its annual audited consolidated financial statements for the year ended December 31, 2018. Management, in preparing these financial statements, is required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and judgments are based upon assumptions that are considered reasonable under the circumstances. Actual results could differ from such estimates and judgments by a material amount. The significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2018.

Changes in 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, 2018, unless specified.

a) New Standard – IFRS 16 Leases

In January 2016, the International Accounting Standards Board issued the final version of IFRS 16, Leases. IFRS 16 will replace the existing leases Standard, IAS 17 Leases, and related Interpretations. The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., the lessee and the lessor). IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Historically, operating lease expenses are charged to the statement of comprehensive income. The Standard also contains enhanced disclosure requirements for lessees. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Other areas

of the lease accounting model have been impacted, including the definition of a lease. The Corporation transitioned to IFRS 16 in accordance with the modified retrospective approach. Impacts of IFRS 16 prior to January 1, 2019 were not adjusted. The details of the changes in accounting policies are disclosed below.

i. Definition of a Lease

Previously, the Corporation determined whether an arrangement or an agreement contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. Beginning January 1, 2019, the Corporation determines whether an arrangement or an agreement contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

- The contract involves the use of an identified asset, which may be specifically or implicitly stated, and the identified asset should be physically distinct or represents substantially all of the capacity of the asset. If the supplier has the substantive right to substitute the asset throughout the term of the contract, then the asset is not identified;
- The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the contract; and
- The Corporation has the right to direct the use of the identified asset throughout the contract. The Corporation has this right to direct how and for what purpose the asset is used. In addition, the Corporation has the right to operate the asset without the lessor or supplier having the right to change those operation instructions, or the Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Corporation applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Corporation allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Corporation has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

ii. As a Lessee

The Corporation historically has leased assets such as properties, vehicles and office equipment.

As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Historically all previous lease arrangements were classified as operating leases. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases, which is currently reflected on the Condensed Consolidated Statements of Financial Position.

However, the Corporation has elected to apply recognition exemptions to right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment), as well as for short-term leases or leases with terms less than 12 months or entered into on a month-to-month basis. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For leases that do not qualify for the exemptions previously noted, the Corporation has recognized right-of-use asset and lease liability, respectively, on the Condensed Consolidated Statements of Financial Position.

The Corporation recognizes the right-of-use asset and lease liability at the lease commencement date. Lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at the lease commencement date. Right-of-use assets are measured at an amount equal to the lease-liability, adjusted for any lease payments made at or before commencement date, and initial directs costs incurred by the Corporation.

The Corporation used the following transitional practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- The Corporation will rely on previous assessment of whether leases are onerous in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative to performing an impairment review and shall adjust the right-of-use asset at the date of the initial application by the amount of any provision for onerous leases recognized immediately before date of initial application.
- For leases previously classified as operating leases the Corporation has elected to measure the right-of-use asset as if IFRS 16 had always been applied since the commencement date of the lease, but discounted using the incremental borrowing rate at the date of initial application.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.
- When determining the lease term of contracts prior to January 1, 2019 the Corporation used hindsight.
- Discount rates for a portfolio of leases with reasonably similar characteristics will be the same if the discount rate is not implicit in the lease contract, and applying this standard will not result in any material differences.

- Leases with a term of 12 months or less will be excluded from the IFRS 16 lessee model and will be recognized directly in the statements of comprehensive income (loss) in line with historical treatment.
- Leases for which the lease term ends within twelve months of the date of initial application are recognized directly in the statements of comprehensive income (loss) in line with historical treatment.
- Leases for which the lease term ends within twelve months of the date of initial application are recognized directly in the statements of comprehensive income (loss) in line with historical treatment.
- Leases of low-value items will be excluded from the IFRS 16 lessee model and recognized in line with historical treatment.

iii. As a Lessor

The Corporation is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor except for a sub-lease. The Corporation accounted for it leases in accordance with IFRS 16 from the date of initial application.

The Corporation sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. The Corporation is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Corporation reassessed the classification of its sub-leases and concluded that they qualify as a finance lease under IFRS 16.

iv. Impacts on Financial Statements

Impacts on transition

On transition to IFRS 16, as at January 1, 2019 the Corporation recognized additional right-of-use assets of $33.9 million and lease liabilities of $45.7 million. The impact of the transition on the Condensed Consolidated Statements of Financial Position is summarized below:

	January 1, 2019
Right-of-use assets [(1)]	33,882
Deferred tax assets	700
Lease liabilities [(2)]	45,705
Deferred income	(1,300)
Provision for onerous contracts	(1,832)
Retained earnings	(7,991)

[(1)] Included in the right-of-use assets is a net investment in subleases of $0.5 million

[(2)] Includes current and non-current lease liabilities

When measuring lease liabilities, the Corporation discounted lease payments using the incremental borrowing rate at the date of initial application of IFRS 16. The weighted average rate applied was 6 percent.

	January 1, 2019
Operating lease commitments as at December 31, 2018	32,216
Discount using incremental borrowing rate as at January 1, 2019	(9,379)
Adjustments[1]	22,868
Lease liabilities recognized as at January 1, 2019	45,705

[1] Includes the impact of judgement applied with regard to lease terms in which the Corporation is a lessee that include renewals options; and includes exemptions including those for short-term and low-dollar value lease.

Impacts for the period

As a result of initially applying IFRS 16, the Corporation recognized right-of-use assets in the amount of $33.2 million and lease liabilities of $45.1 million as at March 31, 2019. Due to the addition of right-of-use asset and lease liabilities in 2019, the Corporation recognized depreciation expense and finance expense lease liability of $0.9 million and $0.6 million, respectively, for the three-months ended March 31, 2019.

Business Risk Factors

The business risk factors applicable to the Corporation have not materially changed since December 31, 2018. Refer to the "Business Risk Factors" section of the MD&A in the PHX Energy's 2018 annual report.

Corporate Governance

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

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

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

The Corporation is required to disclose herein any change in the Corporation's internal controls over financial reporting that occurred during the period beginning on January 1, 2019 and ending on March 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting. No material changes in the Corporation's internal controls over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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

Outstanding Corporation Share Data

	As at May 2, 2019
Common shares outstanding	56,439,620
Dilutive securities:	
Options	5,496,101
Corporation shares – diluted	61,935,721

Outlook

The first quarter results are a continuation of the positive momentum built in the 2018-year and were driven by the Corporation's strategic initiatives focused on the US market and building a fleet of disruptive technologies. PHX Energy's US division has consistently demonstrated its growth potential over the last 2 years and the Corporation's high performance technologies remain in high demand and are contributing to the improvements in revenue and profitability.

In the first quarter, the US remained the largest area of operation for the Corporation and the majority of PHX Energy's premium technologies, such as Velocity systems, Atlas motors and PowerDrive Orbit RSS, were deployed in the US. The US industry remains extremely favourable and with the Corporation's unique position, PHX Energy's growth strongly outpaced the industry. PHX Energy's US operating days increased 38 percent quarter-over-quarter as compared to the 9 percent increase in the US rig count. This increased activity combined with the premiums and surcharges related to the high performance technology has led the US division to consistently grow. PHX Energy remains optimistic that it can further build upon the strong growth and market share gains over the past few quarters as additional Atlas and Velocity capacity is deployed later this year and into 2020. Commodity prices appear to have recovered from the decline in the fourth quarter of 2018 and if these levels persist, industry activity may be greater than anticipated and this may further increase the potential opportunities for PHX Energy.

As expected, the Canadian industry remains challenged with limited market access and political uncertainty. Both the industry and PHX Energy saw activity levels decrease quarter-over-quarter, although the Corporation's strong position in this market sheltered it slightly. PHX Energy experienced a 19 percent decline in operating days as compared to the industry's decline of 35 percent. The Canadian industry has seen improvements in the price of Canadian crude oil and this provides some optimism that industry activity will not see steeper declines as the year progresses. In the first quarter, the spring break-up period began earlier than is typical and this slow period will continue through the second quarter. Rig counts are currently trending 30 percent below what they were last year and in spite of these activity levels, PHX Energy remains committed to the Canadian industry and protecting its strong market share for the future.

The first quarter was very similar to the fourth quarter of 2018 for PHX Energy's international operations. The Albania division continued to operate on 3 rigs while the Russian operations relied more on the MWD rental business as key clients decreased their drilling programs. The Russian division is focused on gaining more full service work and PHX Energy believes in upcoming quarters activity levels will begin to increase.

Technology Update

As the industry continues to strive for efficiencies, core directional technologies have changed the time and economics for operators to drill long horizontal wells, making directional services the most impactful services for operators' performance and cost of drilling. As a directional provider who has successfully developed, manufactured and deployed these advanced technologies, PHX Energy continues to be recognized as an industry leader, which is positively contributing to its financial and operational results. As in the fourth quarter of 2018, the surcharges and premiums generated from PHX Energy's high performance technologies aided the strong revenue and profitability achieved and PHX Energy has dedicated its 2018 and 2019 capital expenditure programs to expanding the fleets of Velocity systems and Atlas motors. In the quarter, PHX Energy continued to operate its fleet of PowerDrive Orbit RSS and is leveraging its ability to rent this technology to meet demand when it exceeds its own fleet capacity.

As 2019 progresses, PHX Energy will continue to execute on its strategies for technology development, US growth and protecting its strong financial position.

Michael Buker
President
May 2, 2019

Non-GAAP Measures

Adjusted EBITDA

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Net Loss	**(1,067)**	(4,251)
Add:		
Depreciation and amortization drilling and other equipment	**10,167**	10,306
Depreciation and amortization right-of-use asset	**867**	-
Provision for income taxes	**234**	14
Finance expense	**384**	340
Finance expense lease liability	**646**	-
Equity-settled share-based payments	**184**	460
Unrealized foreign exchange (gain) loss	**16**	(101)
Adjusted EBITDA as reported	**11,431**	6,768

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

Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Net cash flows from operating activities	**9,699**	936
Add (deduct):		
Changes in non-cash working capital	**(17)**	5,088
Interest paid	**278**	228
Income taxes paid (received)	**140**	(495)
Funds from operations	**10,100**	5,757

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

Debt to Covenant EBITDA Ratio

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

Working Capital

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

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.

Condensed Consolidated Statements of Financial Position

(unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 4,031,025**	$ 3,643,418
Trade and other receivables	**98,157,425**	103,987,716
Inventories	**27,629,379**	27,558,003
Prepaid expenses	**3,612,881**	2,428,221
Current tax assets	**419,260**	625,964
Total current assets	**133,849,970**	138,243,322
Non-current assets:		
Drilling and other equipment (Note 6)	**93,802,611**	94,164,880
Right-of-use asset (Note 3)	**33,209,280**	-
Intangible assets	**21,579,903**	22,301,680
Goodwill	**8,876,351**	8,876,351
Deferred tax assets	**654,100**	594,049
Total non-current assets	**158,122,245**	125,936,960
Total assets	**$ 291,972,215**	$ 264,180,282
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility (Note 7)	**$ 8,754,798**	$ 13,348,562
Lease liability (Note 3)	**2,778,533**	-
Trade and other payables	**59,035,644**	64,578,428
Total current liabilities	**70,568,975**	77,926,990
Non-current liabilities:		
Lease liability (Note 3)	**42,326,562**	-
Loans and borrowings (Note 7)	**19,008,900**	11,821,000
Deferred tax liability	**1,968,675**	2,886,606
Provision for onerous contracts (Note 3)	**-**	1,832,000
Deferred income (Note 3)	**-**	1,300,007
Total non-current liabilities	**63,304,137**	17,839,613
Equity:		
Share capital (Note 8a)	**265,220,367**	265,760,391
Contributed surplus	**10,773,113**	10,631,982
Retained earnings	**(134,442,817)**	(125,385,208)
Accumulated other comprehensive income	**16,548,440**	17,406,514
Total equity	**158,099,103**	168,413,679
Total liabilities and equity	**$ 291,972,215**	$ 264,180,282

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Loss

(unaudited)

	Three-month periods ended March 31,			
		2019		2018
Revenue	**$**	**92,120,704**	$	70,758,554
Direct costs		**78,790,218**		65,929,457
Gross profit		**13,330,486**		4,829,097
Expenses:				
Selling, general and administrative expenses		**13,201,938**		8,770,725
Research and development expenses		**899,586**		870,330
Finance expense		**383,600**		339,727
Finance expense lease liability (Note 3)		**646,161**		-
Other expenses (income) (Note 9)		**(968,256)**		(914,619)
		14,163,029		9,066,163
Loss before income taxes		**(832,543)**		(4,237,066)
Provision for (Recovery of) income taxes				
Current		**348,472**		(144,833)
Deferred		**(114,050)**		158,767
		234,422		13,934
Net loss		**(1,066,965)**		(4,251,000)
Other comprehensive income (loss)				
Foreign currency translation		**(858,074)**		2,645,967
Total comprehensive loss for the period	**$**	**(1,925,039)**	$	(1,605,033)
Loss per share – basic	**$**	**(0.02)**	$	(0.07)
Loss per share – diluted	**$**	**(0.02)**	$	(0.07)

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

Three-month period ended March 31, 2019	**Share Capital Number**	**Share Capital Amount ($)**	**Contributed Surplus**	**Accumulated Other Comprehensive Income**	**Retained Earnings**	**Total Equity**
Balance, December 31, 2018	**57,963,720**	**$ 265,760,391**	**$ 10,631,982**	**$ 17,406,514**	**$ (125,385,208)**	**$ 168,413,679**
Adjustment initial application of IFRS 16 (Note 3)					**(7,990,644)**	**(7,990,644)**
Net issuance of share capital	**45,000**	**87,750**	**-**	**-**	**-**	**87,750**
Common Shares repurchased	**(229,500)**	**(670,600)**	**-**	**-**	**-**	**(670,600)**
Share-based payments	**-**	**-**	**183,957**	**-**	**-**	**183,957**
Fair value of options exercised	**-**	**42,826**	**(42,826)**	**-**	**-**	**-**
Net loss	**-**	**-**	**-**	**-**	**(1,066,965)**	**(1,066,965)**
Foreign currency translation	**-**	**-**	**-**	**(858,074)**	**-**	**(858,074)**
Balance, March 31, 2019	**57,779,220**	**$ 265,220,367**	**$ 10,773,113**	**$ 16,548,440**	**$ (134,442,817)**	**$ 158,099,103**

Three-month period ended March 31, 2018	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance, December 31, 2017	58,397,887	$ 266,838,036	$ 9,315,926	$ 11,822,389	$ (106,438,399)	$ 181,537,952
Net issuance of share capital	-	-	-	-	-	-
Common Shares repurchased	(125,000)	(237,500)	-	-	-	(237,500)
Share-based payments	-	-	460,202	-	-	460,202
Fair value of options exercised	-	-	-	-	-	-
Net loss	-	-	-	-	(4,251,000)	(4,251,000)
Foreign currency translation	-	-	-	2,645,967	-	2,645,967
Balance, March 31, 2018	58,272,887	$ 266,600,536	$ 9,776,128	$ 14,468,356	$ (110,689,399)	$ 180,155,621

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net loss	**$ (1,066,965)**	$ (4,251,000)
Adjustments for:		
Depreciation and amortization drilling and other equipment	**10,167,271**	10,306,246
Depreciation and amortization right-of-use asset	**867,203**	-
Provision for income taxes	**234,422**	13,934
Unrealized foreign exchange loss (gain)	**16,075**	(101,069)
Gain on disposition of drilling equipment	**(1,280,178)**	(778,659)
Equity-settled share-based payments	**183,957**	460,202
Finance expense	**383,600**	339,727
Provision for (Recovery of) bad debts	**46,571**	(7,888)
Provision for (Recovery of) inventory obsolescence	**547,401**	(64,738)
Provision for onerous contracts	**-**	(128,000)
Amortization of deferred income	**-**	(33,333)
Interest paid	**(277,538)**	(227,543)
Income taxes received (paid)	**(139,940)**	495,491
Change in non-cash working capital	**17,414**	(5,087,843)
Net cash from operating activities	**9,699,293**	935,527
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**2,533,773**	2,706,864
Acquisition of drilling and other equipment	**(11,306,546)**	(3,066,570)
Acquisition of intangible assets	**-**	(3,696)
Change in non-cash working capital	**(1,755,135)**	(2,007,470)
Net cash used in investing activities	**(10,527,908)**	(2,370,872)
Cash flows from financing activities:		
Proceeds from (Repayment of) loans and borrowings	**7,187,900**	(2,000,000)
Proceeds from (Repayment of) operating facility	**(4,593,765)**	4,081,479
Payments of lease liability	**(795,063)**	-
Repurchase of shares under the NCIB	**(670,600)**	(237,500)
Proceeds from issuance of share capital	**87,750**	-
Net cash from financing activities	**1,216,222**	1,843,979
Net increase in cash and cash equivalents	**387,607**	408,634
Cash and cash equivalents, beginning of period	**3,643,418**	4,122,539
Cash and cash equivalents, end of period	**$ 4,031,025**	$ 4,531,173

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, 2019 and 2018

In Canadian dollars (unaudited)

1. Reporting Entity

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

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

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended December 31, 2018.

These condensed consolidated interim financial statements were authorized by the Board of Directors on May 2, 2019.

b) Basis of Measurement

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

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, 2018.

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, 2018, unless specified.

a) New Standard – IFRS 16 Leases

In January 2016, the International Accounting Standards Board issued the final version of IFRS 16, Leases. IFRS 16 will replace the existing leases Standard, IAS 17 Leases, and related Interpretations. The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., the lessee and the lessor). IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Historically, operating lease expenses are charged to the statement of comprehensive income. The Standard also contains enhanced disclosure requirements for lessees. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Other areas of the lease accounting model have been impacted, including the definition of a lease. The Corporation transitioned to IFRS 16 in accordance with the modified retrospective approach. Impacts of IFRS 16 prior to January 1, 2019 were not adjusted. The details of the changes in accounting policies are disclosed below.

i. Definition of a Lease

Previously, the Corporation determined whether an arrangement or an agreement contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. Beginning January 1, 2019, the Corporation determines whether an arrangement or an agreement contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

- The contract involves the use of an identified asset, which may be specifically or implicitly stated, and the identified asset should be physically distinct or represents substantially all of the capacity of the asset. If the supplier has the substantive right to substitute the asset throughout the term of the contract, then the asset is not identified;
- The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the contract; and
- The Corporation has the right to direct the use of the identified asset throughout the contract. The Corporation has this right to direct how and for what purpose the asset is used. In addition, the Corporation has the right to operate the asset without the lessor or supplier having the right to change those operation instructions, or the Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Corporation applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Corporation allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Corporation has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

ii. As a Lessee

The Corporation historically has leased assets such as properties, vehicles and office equipment.

As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Historically all previous lease arrangements were classified as operating leases. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases, which is currently reflected on the Condensed Consolidated Statements of Financial Position.

However, the Corporation has elected to apply recognition exemptions to right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment), as well as for short-term leases or leases with terms less than 12 months or entered into on a month-to-month basis. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For leases that do not qualify for the exemptions previously noted, the Corporation has recognized right-of-use asset and lease liability, respectively, on the Condensed Consolidated Statements of Financial Position.

The Corporation recognizes the right-of-use asset and lease liability at the lease commencement date. Lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at the lease commencement date. Right-of-use assets are measured at an amount equal to the lease-liability, adjusted for any lease payments made at or before commencement date, and initial directs costs incurred by the Corporation.

The Corporation used the following transitional practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- The Corporation will rely on previous assessment of whether leases are onerous in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative to performing an impairment review and shall adjust the right-of-use asset at the date of the initial application by the amount of any provision for onerous leases recognized immediately before date of initial application.
- For leases previously classified as operating leases the Corporation has elected to measure the right-of-use asset as if IFRS 16 had always been applied since the commencement date of the lease, but discounted using the incremental borrowing rate at the date of initial application.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.
- When determining the lease term of contracts prior to January 1, 2019 the Corporation used hindsight.

- Discount rates for a portfolio of leases with reasonably similar characteristics will be the same if the discount rate is not implicit in the lease contract, and applying this standard will not result in any material differences.
- Leases with a term of 12 months or less will be excluded from the IFRS 16 lessee model and will be recognized directly in the statements of comprehensive income (loss) in line with historical treatment.
- Leases for which the lease term ends within 12 months of the date of initial application are recognized directly in the statements of comprehensive income (loss) in line with historical treatment.
- Leases of low-value items will be excluded from the IFRS 16 lessee model and recognized in line with historical treatment.

iii. As a Lessor

The Corporation is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor except for a sub-lease. The Corporation accounted for it leases in accordance with IFRS 16 from the date of initial application.

The Corporation sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. The Corporation is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Corporation reassessed the classification of its sub-leases and concluded that they qualify as a finance lease under IFRS 16.

iv. Impacts on Financial Statements

Impacts on transition

On transition to IFRS 16, as at January 1, 2019 the Corporation recognized additional right-of-use assets of $33.9 million and lease liabilities of $45.7 million. The impact of the transition on the Condensed Consolidated Statements of Financial Position is summarized below:

	January 1, 2019
Right-of-use assets (1)	33,882
Deferred tax assets	700
Lease liabilities (2)	45,705
Deferred income	(1,300)
Provision for onerous contracts	(1,832)
Retained earnings	(7,991)

(1) Included in the right-of-use assets is a net investment in subleases of $0.5 million

(2) Includes current and non-current lease liabilities

When measuring lease liabilities, the Corporation discounted lease payments using the incremental borrowing rate at the commencement date of the lease. The weighted average rate applied was 6 percent.

	January 1, 2019
Operating lease commitments as at December 31, 2018	32,216
Discount using incremental borrowing rate as at January 1, 2019	(9,379)
Adjustments[1]	22,868
Lease liabilities recognized as at January 1, 2019	45,705

[1] Includes the impact of judgement applied with regard to lease terms in which the Corporation is a lessee that include renewals options; and includes exemptions including those for short-term and low-dollar value lease.

Impacts for the period

As a result of initially applying IFRS 16, the Corporation recognized right-of-use assets in the amount of $33.2 million and lease liabilities of $45.1 million as at March 31, 2019. Due to the addition of right-of-use asset and lease liabilities in 2019, the Corporation recognized depreciation expense and finance expense lease liability of $0.9 million and $0.6 million, respectively, for the three-months ended March 31, 2019.

4. Operating Segments

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

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Three-month periods ended March 31,	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Drilling services revenue	**23,411**	26,653	**62,996**	38,067	**4,261**	4,717	**90,668**	69,437
EDR rental revenue	**1,453**	1,322	**-**	-	**-**	-	**1,453**	1,322
Total Revenue	**24,864**	27,975	**62,996**	38,067	**4,261**	4,717	**92,121**	70,759
Reportable segment profit (loss) before income taxes	**1,254**	1,511	**2,396**	(4,168)	**(105)**	(360)	**3,545**	(3,017)

(Stated in thousands of dollars)

	Canada		United States		International		Total	
As at March 31,	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Drilling and other equipment	**25,800**	38,767	**61,938**	43,692	**6,065**	9,267	**93,803**	91,726
Goodwill	**8,876**	8,876	**-**	-	**-**	-	**8,876**	8,876

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Reportable segment loss before income taxes	**3,545**	(3,017)
Corporate:		
Selling, general and administrative expenses	**3,416**	925
Research and development expenses	**900**	870
Finance expense	**384**	340
Finance expense lease liability	**646**	-
Other income	**(968)**	(915)
Loss before income taxes	**(833)**	(4,237)

5. Seasonality of Operations

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

6. Drilling and Other Equipment

a) Acquisitions and Disposals

During the three-month period ended March 31, 2019, the Corporation acquired assets with a cost of $11.3 million (2018 - $3.1 million).

Assets with a carrying amount of $1.3 million (2018 - $1.9 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $1.3 million (2018 - $0.8 million), which is included in other income in the condensed consolidated statement of comprehensive income.

b) Capital Commitments

As at March 31, 2019, the Corporation has commitments to purchase drilling and other equipment for $10.7 million, delivery is expected to occur by the end of 2019.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at March 31, 2019**	Currency	Carrying Amount at December 31, 2018
Operating Facility	CAD	15,000	Due on demand	CAD	**8,755**	CAD	13,349
Syndicated Facility	CAD	48,000	December 11, 2020	CAD	**15,000**	CAD	5,000
US Operating Facility	USD	5,000	December 11, 2020	USD	**3,000**	USD	5,000

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at March 31, 2019, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**March 31, 2019**
Debt to covenant EBITDA	< 3.0	**0.56**
Interest coverage ratio	> 3.0x	**39.64**
Net capital expenditures and intangible asset acquisitions, net of proceeds from asset dispositions	< $30 million	**$8.8 million**

In January 2019, the Corporation amended its syndicated loan agreement in connection with the effect of IFRS 16. The calculation relating to financial covenants shall be made with regard to generally accepted accounting principles in effect on December 31, 2018, thus negating IFRS 16.

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

Interest coverage ratio for the purpose of this covenant is represented by covenant EBITDA divided by finance expense.

8. 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, 2018	58,397,887	$	266,838,036
Common Shares repurchased	(482,500)		(1,207,324)
Issued shares pursuant to share option plan	48,333		129,679
Balance as at December 31, 2018	57,963,720	$	265,760,391
Common Shares repurchased	**(229,500)**		**(670,600)**
Issued shares pursuant to share option plan	**45,000**		**130,576**
Balance as at March 31, 2019	**57,779,220**	**$**	**265,220,367**

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 2019

Number		Exercise Price	Expiration Date		Fair Value
200,000	$	2.81	March 8, 2024	$	1.22
50,000		2.83	March 8, 2024		1.21
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 2019 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 56 percent, forfeiture rate of nil, and a risk free interest rate of 1.65 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, 2019, the Corporation recognized total compensation expense of $0.2 million (2018 - $0.5 million) for share options granted between 2016 and 2019.

A summary of the status of the plan as at March 31, 2019, is presented below:

	2019		2018	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**5,291,101**	**$ 3.89**	5,499,468	$ 4.41
Granted	**250,000**	**2.81**	250,000	1.99
Exercised	**(45,000)**	**1.95**	-	-
Expired	**-**	**-**	(1,667)	9.14
Outstanding, end of period	**5,496,101**	**3.86**	5,747,801	4.31
Options exercisable, end of period	**4,247,757**	**4.09**	3,254,454	5.43

The range of exercise prices for options outstanding at March 31, 2019 are as follows:

Options Outstanding				Options Exercisable	
Original Exercise Price	Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$ 1.55	1,318,334	1.93 yrs	$ 1.55	1,318,334	$ 1.55
1.71	175,000	3.38 yrs	1.71	116,666	1.71
1.79	575,000	3.38 yrs	1.79	383,331	1.79
1.95	165,267	2.54 yrs	1.95	131,933	1.95
2.00	200,000	3.94 yrs	2.00	66,664	2.00
2.81	200,000	4.94 yrs	2.81	-	2.81
2.83	50,000	4.94 yrs	2.83	-	2.83
3.41	25,000	2.65 yrs	3.41	16,666	3.41
4.06	1,305,000	2.93 yrs	4.06	869,997	4.06
4.15	415,000	2.93 yrs	4.15	276,666	4.15
6.87 - 15.81	1,067,500	0.78 yrs	9.14	1,067,500	9.14
	5,496,101	2.44 yrs	$ 3.86	4,247,757	$ 4.09

c) Retention Award Plan

The retention award plan results in eligible participants receiving cash compensation in relation to the value of a specified number of underlying notional retention awards. The retention award plan has two types of awards Restricted Awards (RAs) and Performance Awards (PAs). RAs vest evenly over a period of three-years. Upon vesting and subsequent exercise, the holder is entitled to receive a cash payment 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, 2019, 750,000 PAs were granted (2018 – 750,000), 566,668 PAs settled at a weighted average payout multiplier of 192 percent (2018 – 66,664), no PAs were forfeited (2018 - nil), and, as at March 31, 2019, 1,316,668 PAs were outstanding (2018 – 883,336).

The Corporation recorded a total of $2.9 million compensation expense relating to these plans for the quarter ended March 31, 2019 (2018 - $45,915). The expense is included in selling, general and administrative expense and has a corresponding liability included in trade and other payables. There were 3,699,523 RAs and PAs outstanding as at March 31, 2019 (2018 – 3,486,839).

A summary of the status of the plan as at March 31, 2019, is presented below:

	2019	2018
RAs and PAs outstanding, beginning of year	**3,443,456**	2,103,040
Granted	**1,406,719**	2,098,114
Settled	**(1,134,985)**	(614,940)
Forfeited / cancelled	**(15,667)**	(99,375)
RAs and PAs outstanding, end of year	**3,699,523**	3,486,839

d) Normal Course Issuer Bid

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

purchase. Pursuant to the NCIB, 357,500 common shares were purchased by the Corporation in the second half of 2018 and cancelled.

For the three-month period ended March 31, 2019, the Corporation has purchased and cancelled 229,500 common shares (2018- 125,000). Subsequent to quarter end from April 1, 2019 to May 2, 2019, the Corporation purchased and cancelled 1,339,600 common shares at an amount of $4.5 million.

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

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2019	2018
Gain on disposition of drilling equipment	**(1,280)**	(779)
Foreign exchange losses (gains)	**265**	(128)
Provision for (Recovery of) bad debts	**47**	(8)
Other income	**(968)**	(915)

10. Fair Values of Financial Instruments

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

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Judith Athaide

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 International Operations and Technology

Daniel Blanchard
Vice President Executive Sales

Jeffery Shafer
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

Computershare Trust Company of Canada
Calgary, Alberta