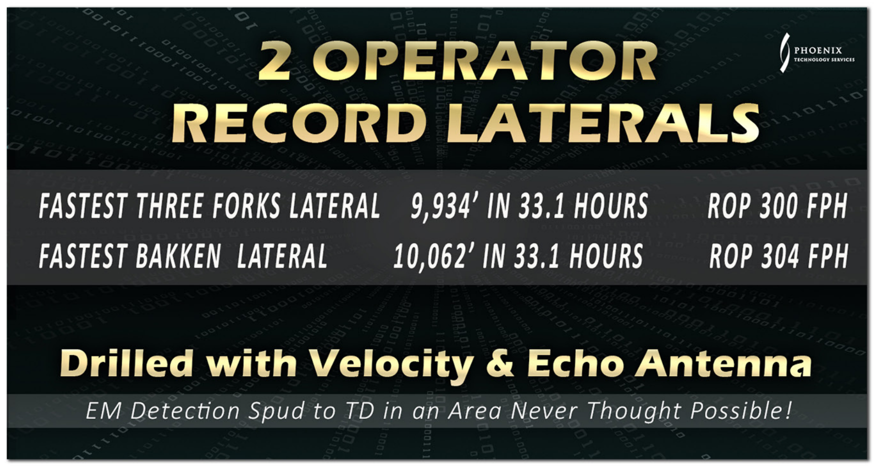
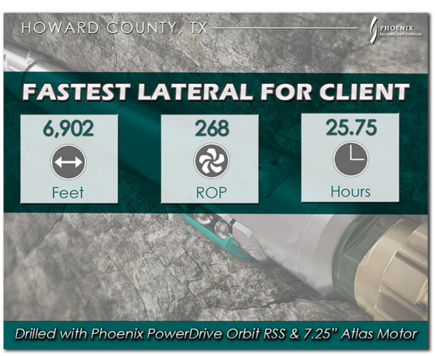
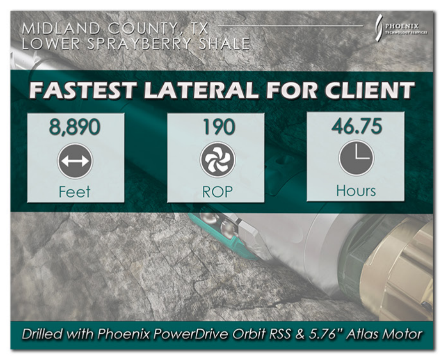
Q1 2021 REPORT







PHX
ENERGY SERVICES CORP.

PHX Energy Services Corp.

First Quarter Report for the three-month periods ended March 31, 2021 and 2020

Financial Results

In the first quarter of 2021, PHX Energy reported improved adjusted EBITDA as a percentage of revenue and earnings from continuing operations despite the ongoing effects of the COVID-19 pandemic. For the three-month period ended March 31, 2021, the Corporation achieved adjusted EBITDA from continuing operations of $14.5 million, 21 percent of revenue, compared to $19.3 million, 19 percent of revenue, in the corresponding 2020-period. Earnings from continuing operations in the three-month period ended March 31, 2021 increased to $5.3 million from a loss of $2.2 million in the 2020-quarter. The sustained cost discipline initiatives from the prior year and the positive impact of government grants contributed to the improved profitability and earnings in the first quarter of 2021. This improved profitability in the first quarter of 2021, however, was affected by the cash-settled share-based payments expense of $2.6 million compared to a recovery of $3.4 million in the comparative 2020-quarter. In the 2020-quarter, the Corporation also recognized impairment loss on goodwill of $10.2 million and provision for bad debts of $3.1 million.

In the three-month period ended March 31, 2021, PHX Energy's consolidated revenue from continuing operations decreased by 31 percent to $68.5 million from $98.9 million in the 2020-period as the impacts of the COVID-19 pandemic continued to impact industry activity in 2021. For the three-month period ended March 31, 2021, PHX Energy's US division generated $53.1 million in revenue, representing 77 percent of first quarter consolidated revenue from continuing operations (2020 - 75 percent) and a 29 percent decrease from the $74.3 million generated in the 2020-quarter. The Corporation remained focused on growing market share in the US by expanding 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 2021 decreased 23 percent to 3,084 operating days from 4,029 operating days in the 2020-quarter. The extreme cold weather in Texas during the 2021-quarter impacted the Corporation's US drilling activity and operating days were lower as a result. In comparison, US industry activity, as measured by the average rigs operating per day, declined by 50 percent to 396 in the first quarter of 2021 from 785 in the 2020-quarter (Source: Baker Hughes). The softer decline in PHX Energy's US segment activity compared to the overall US industry demonstrates the strength of the Corporation's reputation and high level of and demand for the Corporation's high performing technologies and services, which include RSS services.

Industry challenges in Canada continued to impact the Corporation's Canadian operations during the first quarter of 2021. PHX Energy's Canadian segment's operating days declined by 33 percent from 2,645 days in the first quarter of 2020 to 1,765 operating days in the 2021-quarter. The Corporation's Canadian segment generated $15.4 million in revenue for the 2021-quarter, a decrease of 37 percent compared to the $24.6 million in the 2020-quarter.

The Corporation ended the 2021-quarter with no bank loans outstanding and cash and cash equivalents of $23.5 million (December 31, 2020 - $25.7 million). For the three-month period ended March 31, 2021, the Corporation's free cash flow was $8.2 million as compared to $16.6 million in the 2020-period.

Responding to COVID-19

Despite oil prices recovering to pre-pandemic levels, the significant impact of COVID-19 on the global economy persisted. Drilling activity remained suppressed relative to pre-pandemic levels, but has been steadily increasing over the previous two quarters. PHX Energy's strategic focus on being technology leader in its sector has allowed the Corporation to achieve many operational and financial success in the challenging industry environment. In 2021, the Corporation continued to monitor, evaluate and adjust its business costs in line with drilling activity in North America and will continue to implement changes as required. In addition, the Corporation will continue to utilize various government assistance programs available for businesses in North America. For the three-month period ended March 31, 2021 the Corporation has recognized government grants of $1.6 million in the Canadian division related to the Canadian Emergency Wage Subsidy ("CEWS") and Canadian Emergency Rent Subsidy ("CERS") programs and USD $1.9 million related to the Coronavirus Aid, Relief, and Economic Security ("CARES") program in the US segment.

The Corporation remained diligent in retaining financial strength and agility with significant liquidity on its credit facilities. As at March 31, 2021, the Corporation has working capital of $59.6 million and has approximately CAD $65 million and USD $15 million available from its credit facilities, subject to a borrowing base limit of $84 million. Additional information regarding the risks, uncertainties and impact on the Corporation's business can be found throughout this MD&A, including under the headings "Capital Spending", "Operating Costs and Expenses", "Critical Accounting Estimates" and "Outlook".

Assets Held for Sale and Discontinued Operations

In the fourth quarter of 2020, management, with approval from the Board, committed to a plan to sell the Russian division, Phoenix TSR. As at March 31, 2021, the operations of Phoenix TSR had not been sold, however, management anticipates the operations will be sold in the second quarter of 2021. Accordingly, for the three-month period ended March 31, 2021, net assets with a carrying value of $3 million owned by Phoenix TSR have been classified as assets held for sale and liabilities directly associated with assets held for sale and the financial results of Phoenix TSR have been presented as discontinued operations. The decision to sell the division is not anticipated to have a significant impact on the continuing operations of the Corporation. For the three-month period ended March 31, 2021, the Russian division incurred adjusted EBITDA of negative $0.5 million (2020 - negative $0.6 million). While the closing of this transaction is expected in the second quarter of 2021, there can be no assurance that the sale of the Russian division will be complete on the terms anticipated or at all.

Technology Partnership

In the first quarter of 2021, the Corporation announced it has entered into a technology partnership with National Energy Services Reunited Corp. ("NESR"). Pursuant to the partnership, PHX Energy will provide its premium downhole technology for use in NESR's directional drilling operations in the Middle East and North Africa ("MENA") regions. Access to NESR's international markets is anticipated to provide opportunities to further extend the global reach and reputation of the Corporation's high-performance technologies and equipment.

Capital Spending

The Corporation spent $6.9 million on capital expenditures in the first quarter of 2021, which is $12 million less than the expenditures in the 2020-quarter of $18.9 million. Capital expenditures for the 2021-quarter were primarily directed towards Atlas motors, Velocity systems, and RSS . Of the total capital expenditures in the 2021-quarter $4.6 million was spent on growing the Corporation's fleet of drilling equipment and the remaining $2.3 million was spent on maintenance of the current fleet of drilling and other equipment. The Corporation funded capital spending through funds from operations.

As at March 31, 2021, the Corporation has commitments to purchase drilling and other equipment for $12.1 million, with delivery of these purchases expected to occur by the end of the second quarter of 2021. Commitments include $6.1 million for Velocity systems, $5.9 million for performance drilling motors primarily relating to Atlas, and $0.1 million for other machinery and equipment

Capital expenditures since 2015 have primarily been dedicated toward expanding and growing the capacity of the high performance fleets. In addition to the Corporation's fleet of conventional measurement while drilling ("MWD") systems and drilling motors, the Corporation possesses approximately 420 Atlas motors, comprised of various configurations including its 7.25", 5.13", 5.76", 8" and 9" Atlas motors, 78 Velocity systems, and 18 PowerDrive Orbit RSS, the largest independent fleet in North America.

On April 9, 2021, the Corporation announced an increase to its 2021 capital expenditure program from $15 million to $25 million, of which $15 million will be for growth capital and $10 million will be for maintenance of existing drilling and other equipment. The increase to the capital expenditure program is primarily dedicated to growing the Velocity and Atlas fleets to meet increased demand anticipated in the second half of 2021. Additionally, in April the Corporation purchased 4 PowerDrive Orbit RSS for use in its US operations where RSS activity has increased.

Dividends

On March 15, 2021, PHX Energy declared a cash dividend of $0.025 per common share and $1.3 million was paid on April 15, 2021 to shareholders of record at the close of business on March 31, 2021.

Normal Course Issuer Bid

During the third quarter of 2020, the Toronto Stock Exchange ("TSX") approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,131,388 common shares, representing 10 percent of the Corporation's public float of Common Shares as at July 31, 2020. The NCIB commenced on August 14, 2020 and will terminate on August 13, 2021. 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, 2,670,500 common shares were purchased and cancelled by the Corporation as at December 31, 2020. The remaining 460,888 shares were purchased and cancelled during the three-month period ended March 31, 2021, thereby completing the current NCIB program.

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.

Financial Highlights

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

	Three-month periods ended March 31,		
	2021	2020	% Change
Operating Results – Continuing Operations	***(unaudited)***	*(unaudited)*	
Revenue	**68,547**	98,902	(31)
Earnings (loss)	**5,335**	(2,157)	n.m.
Earnings (loss) per share – diluted	**0.11**	(0.04)	n.m.
Adjusted EBITDA (1)	**14,492**	19,269	(25)
Adjusted EBITDA per share – diluted (1)	**0.28**	0.36	(22)
Adjusted EBITDA as a percentage of revenue (1)	**21%**	19%	
Cash Flow – Continuing Operations			
Cash flows from operating activities	**1,506**	11,739	(87)
Funds from operations (1)	**11,803**	20,508	(42)
Funds from operations per share – diluted (1)	**0.23**	0.39	(41)
Dividends per share paid	**0.025**	-	n.m.
Capital expenditures	**6,890**	18,867	(63)
Free cash flow (1)	**8,204**	16,558	(50)
Financial Position (unaudited)	**Mar. 31, '21**	Dec 31, '20	
Working capital (1)	**59,595**	55,524	7
Net Debt (1) (2)	**(23,468)**	(25,746)	n.m.
Shareholders' equity	**133,716**	132,033	1
Common shares outstanding	**50,390,299**	50,625,920	-

n.m. – not meaningful

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

(2) As at March 31, 2021, the Corporation had no bank loans outstanding and was in a cash positive position

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, free cash flow, net debt, and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP Measures" section following the Outlook section of this MD&A for applicable definitions 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 2020 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 2020 annual report, and the Corporation's 2021 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 2021 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 5, 2021.

PHX Energy's Interim Financial Report for the three-month periods ended March 31, 2021 and 2020 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 5, 2021.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

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

- The anticipated continuing impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto;
- The anticipated closing of the transaction to sell the Russian division in the second quarter of 2021 and the terms of this transaction;
- Access to NESR's international markets is anticipated to provide opportunities to further extend the global reach and reputation of the Corporation's high-performance technologies and equipment;
- Anticipated continuation of the Corporation's current dividend program;
- In both the 2021 and 2020-periods, expenses incurred in Albania were primarily personnel and equipment costs to remain on standby for anticipated resumption of activity
- On April 9, 2021, the Corporation announced an increase to its 2021 capital expenditure program from $15 million to $25 million, of which $15 million will be for growth capital and $10 million will be for maintenance of existing drilling and other equipment. The increase to the capital expenditure program is primarily dedicated to growing the Velocity and Atlas fleets to meet increased demand anticipated in the second half of 2021. PHX Energy has made efforts to preserve its presence in Albania with minimal fixed costs anticipated during this dormant period;
- As at March 31, 2021, the Corporation has commitments to purchase drilling and other equipment for $12.1 million, with delivery of these purchases expected to occur by the end of the second quarter of 2021;and,
- Planned expenditures are expected to be financed primarily by funds from operations. However, if a sustained period of market and commodity price uncertainty and financial market volatility persists in 2021, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, in which event the proceeds from borrowing may be required to fund operations, and the expenditure level would be reduced accordingly.

The above are stated under the headings: "Responding to COVID-19", "Assets Held for Sale and Discontinued Operations", "Technology Partnership", "Capital Spending", "Dividend", "Segmented Information", "Liquidity", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Responding to COVID-19", "Critical Accounting Estimates", "Business Risk Factors" and "Outlook" sections of this MD&A may contains forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this MD&A and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the continuing impact of COVID-19 on the global economy, specifically trade, manufacturing, supply chain and energy consumption, among other things and the resulting impact on the Corporation's operations and future results which remain uncertain, exchange and interest rates; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

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

About PHX Energy Services Corp.

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

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

In the fourth quarter of 2020, management, with approval from the Board, committed to a plan to sell the Russian division operating under the entity, Phoenix TSR LLC (“Phoenix TSR”).

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

Results of Continuing Operations

Three-Month Period Ended March 31, 2021

Revenue

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2021	2020	% Change
Revenue	**68,547**	98,902	(31)

US and Canadian industry activity has recovered since the height of the economic and industry recession in the summer of 2020; however, compared to the first quarter of 2020, activity in the first quarter of 2021 remained subdued as uncertainties regarding the economic impact of the COVID-19 pandemic persist. For the three-month period ended March 31, 2021, consolidated revenue decreased by 31 percent to $68.5 million compared to $98.9 million in the comparable 2020-period. Consolidated operating days decreased by 27 percent to 4,849 days as compared to 6,673 in the 2020-quarter. Average consolidated revenue per day for the three-month ended March 31, 2021, excluding motor rental division in the US, decreased by 3 percent to $13,746 from $14,157 in the first quarter of 2020.

Crude oil prices recovered from the decline that commenced at the end of first quarter of 2020, with Western Texas Intermediate ("WTI") averaging USD $58/bbl in the first quarter of 2021 (2020-quarter – USD $46/bbl) and Western Canadian Select ("WCS") oil prices averaging USD $45/bbl (2020-quarter – USD $26/bbl). However, despite the trend in the respective oil prices the rig counts in North America remained well below the pre-pandemic levels in the first quarter of 2020 and the recovery from the lows reached in the summer of 2020 remains gradual. The US industry showed a decline of 50 percent in rig counts quarter-over-quarter whereas Canada experienced a 26 percent decline in the rig count. In the first quarter of 2021, there were 396 rigs operating per day (2020-quarter – 785 rigs) in the US and 145 rigs operating per day in Canada (2020-quarter – 196 rigs). Throughout North America the vast majority of wells continued to be horizontal and directional representing 95 percent of North American activity (Sources: Baker Hughes).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2021	2020	% Change
Direct costs	**54,516**	79,878	(32)
Gross profit as a percentage of revenue	**20%**	19%	
Depreciation & amortization drilling and other equipment (included in direct costs)	**6,232**	7,423	(16)
Depreciation & amortization right-of-use asset (included in direct costs)	**836**	924	(10)
Gross profit as percentage of revenue excluding depreciation & amortization	**31%**	28%	

Direct costs are comprised of field and shop expenses and include depreciation and amortization on the Corporation's equipment and right-of-use assets. For the three-month period ended March 31, 2021, direct costs were $54.5 million, which is a 32 percent decrease over the direct costs of $79.9 million in the 2020-quarter. The decrease in the Corporation's direct costs mainly relates to reduced labour costs and motor repair expenses in line with the decrease in operating activity, and government grants received in the period.

Gross profit as a percentage of revenue excluding depreciation and amortization improved to 31 percent in the 2021-quarter from 28 percent in the relevant 2020-quarter. Increased profitability was primarily driven by the Corporation's commitment to disciplined cost management in the first quarter of 2021 and the recognition of $0.9 million related to CEWS and CERS and USD $1.7 million related to CARES to subsidize personnel costs recognized under direct costs.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2021	2020	% Change
Selling, general & administrative ("SG&A") costs	**8,982**	6,502	38
Cash-settled share-based payments (included in SG&A costs)	**2,644**	(3,424)	n.m.
Equity-settled share-based payments (included in SG&A costs)	**69**	63	10
SG&A costs excluding equity and cash-settled share-based payments as a percentage of revenue	**9%**	10%	

n.m. – not meaningful

For the three-month period ended March 31, 2021, the Corporation's SG&A costs increased by 38 percent to $9 million as compared to $6.5 million in the 2020-period. The increase was primarily driven by higher expense related to share-based payments. Included in SG&A costs are cash-settled and equity-settled share-based payments totaling $2.6 million and $69 thousand, respectively, in the 2021-quarter relative to a recovery of $3.4 million and an expense of $63 thousand in the 2020-quarter, respectively. The increased expense in share-based payments was partially offset by government grants of $0.9 million recognized in SG&A.

Cash-settled share-based payments relate to the Corporation's Retention Award Plan and are measured at fair value. The increase in the 2021-quarter over the comparative 2020-quarter was primarily due to the increase in the Corporation's share price as at the respective reporting periods.

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, 2021, equity-settled share-based payments increased as a result of recent granted options having a higher valuation than the options that were granted in 2020.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2021	2020	% Change
Research & development expense	**560**	1,272	(56)

Research and development ("R&D") expenditures for the first quarters of 2021 and 2020 were $0.6 million and $1.3 million, respectively. 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. The decrease in R&D expenditures quarter-over-quarter was primarily due to the cost alignment initiatives that began as a response to COVID-19 and government grants of $0.1 million.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2021	2020	% Change
Finance expense	**171**	345	(50)
Finance expense lease liability	**548**	543	1

Finance expenses primarily relate to fees and interest charges on the Corporation's long-term and short-term bank facilities. In the 2021-quarter finance charges decreased by 50 percent to $0.2 million relative to the $0.3 million in the 2020-quarter. The decrease in the finance expense is primarily due to the repayment of all bank loans in the second quarter of 2020.

Finance expense lease liability relates to interest expenses incurred on lease liabilities. In the 2021 three-month period, finance expense lease liability was the same as the 2020-period at $0.5 million.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2021	2020
Net gain on disposition of drilling equipment	**(2,819)**	(1,850)
Foreign exchange gains	**-**	(373)
Provision for bad debts	**-**	3,117
Other expense (income)	**(2,819)**	894

For the three-month period ended March 31, 2021, the Corporation recognized other income of $2.8 million as compared to a $0.9 million expense in the relevant 2020-quarter. Other income in the 2021-quarter 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 2021-quarter, more instances of high dollar value downhole equipment losses occurred as compared to the 2020-quarter, resulting in higher net gain on disposition of drilling equipment. In addition, for the three-month period ended March 31, 2020, no provision for bad debts was necessary whereas in the comparative 2020-quarter a provision for bad debts of $3.1 million was recognized.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended March 31,	
	2021	2020
Provision for income taxes	**1,252**	1,376
Effective tax rates	**n.m.**	n.m.

n.m. – not meaningful

The provision for income taxes for the three-month period ended March 31, 2021 was $1.3 million as compared to $1.4 million in the 2020-quarter. Deferred taxes in the 2021 and 2020 periods were 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, mainly in Albania.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2021	2020	% Change
Revenue	**15,446**	24,587	(37)
Reportable segment profit before tax	**2,326**	3,292	(29)

For the three-month period ended March 31, 2021, PHX Energy's Canadian revenue was $15.4 million a decrease of 37 percent from $24.6 million in the corresponding 2020-period. The Canadian segment experienced decreases to drilling activity as market uncertainties continued and producers remained cautious towards capital spending despite the recovery of oil prices. The Canadian segment reported 1,765 operating days in the first quarter of 2021, a 33 percent decrease from the 2,645 days in the 2020-quarter. PHX Energy's activity levels were consistent with the overall prolonged suppressed industry, which saw 26 percent drop in horizontal and directional operating days. There were 12,228 industry horizontal and directional drilling days in the 2021-quarter as compared to 16,586 days in the 2020-quarter (Source: Daily Oil Bulletin). The revenue decline was also impacted by the average revenue per day, which decreased by 2 percent to $8,743 in the 2021-quarter as compared to $8,964 revenue per day in the same 2020-period.

During the 2021-quarter PHX Energy remained active in the Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, and Scallion areas.

Due to lower activity levels in the 2021-quarter, PHX Energy's Canadian division reportable segment profit before tax declined to $2.3 million in the 2021-quarter as compared to $3.3 million in the 2020-quarter. The impact of lower drilling activity to the reportable segment profit was softened by the government grants received through the CEWS and CERS programs in the 2021-quarter.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2021	2020	% Change
Revenue	**53,101**	74,315	(29)
Reportable segment income before tax	**5,583**	10,396	(46)

The Corporation's US operations continue to be the dominant operating segment for PHX Energy evidenced by the segment's ability to shelter its activity levels from the industry's more significant pace of decline throughout the pandemic. For the three-month period ended March 31, 2021, revenue declined 29 percent to $53.1 million from $74.3 million in the corresponding

2020-quarter. Operating days decreased by 23 percent to 3,084 days in the 2021-quarter from 4,029 days in the 2020-quarter. In the 2021-quarter, extreme cold weather impacted drilling operations in Texas, where most of the Corporation's activity is located, and this shut down reduced the US segment's operating days. PHX Energy's activity levels outpaced the industry where the active rig count was significantly lower quarter-over-quarter. In the first quarter of 2021 the number of horizontal and directional rigs running per day in the US decreased by 50 percent from an average of 750 horizontal and directional rigs running per day during the 2020-quarter to 374 in the 2021-quarter (Source: Baker Hughes). For the three-month period ended March 31, 2021, the average revenue per day, excluding the Corporation's US motor rental division, declined to $16,612 from $17,571 in the 2020-quarter, a decrease of 5 percent.

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 2021, which was consistent with the percentage in the 2020-quarter. For the three-month period ended March 31, 2021, all of the US operating division's activity was oil well drilling, as measured by wells drilled. The Corporation remained active in the Permian, Eagle Ford, SCOOP/STACK, Marcellus, Bakken, and Niobrara basins.

In the 2021-quarter, the Corporation realized reportable segment income before tax of $5.6 million compared to $10.4 million in the relevant 2020-quarter. Despite the receipt of government grants, profitability declined in the 2021-quarter primarily as a result of lower drilling activity, fixed operating expenses such as depreciation and amortization of drilling equipment and an increase in share-based payment expenses directly attributable to the US segment.

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2021	2020	% Change
Revenue	**-**	-	n.m.
Reportable segment income (loss) before tax	**(327)**	83	n.m.

n.m. – not meaningful

The International segment information and discussion for the three-month periods ended March 31, 2021 and 2020 only includes the operations in the Albanian division. The financial results of the Russian division have been presented as discontinued operations.

For both the 2021 and 2020-quarter, due to economic uncertainties and a cautious approach to resuming drilling activity by producers, PHX Energy's operations in Albania continue to be suspended. For the three-month period ended March 31, 2021, reportable segment loss before tax was $0.3 million compared to reportable segment income before tax of $83 thousand in the comparative 2020-period. In both the 2021 and 2020-periods, expenses incurred were primarily personnel and equipment costs to remain on standby for anticipated resumption of activity.

Discontinued Operations

In the fourth quarter of 2020, management, with approval from the Board, committed to a plan to sell the Russian division operating under the entity, Phoenix TSR. Accordingly, for the three-month period ended March 31, 2021, net assets with a carrying value of $3 million owned by Phoenix TSR have been classified as assets held for sale and liabilities directly associated with assets held for sale and the financial results of Phoenix TSR have been presented as discontinued operations.

For the three-month period ended March 31, 2021, discontinued operations include revenue of $1.6 million as compared to $4.1 million in the corresponding 2020-period. In the first quarter of 2021, loss from discontinued operations before tax was $0.5 million as compared to $1.2 million in the corresponding 2020-period.

Summary of Quarterly Results - Continuing Operations

(Stated in thousands of dollars except per share amounts)

	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19	Sept-19	Jun-19
Revenue	**68,547**	54,805	37,044	42,985	98,901	90,060	89,640	79,923
Earnings (loss)	**5,335**	2,028	(1,544)	(5,204)	(2,158)	(839)	2,724	(1,078)
Earnings (Loss) per share – basic	**0.11**	0.04	(0.03)	(0.10)	(0.04)	(0.02)	0.05	(0.02)
Earnings (Loss) per share – diluted	**0.11**	0.04	(0.03)	(0.10)	(0.04)	(0.02)	0.05	(0.02)
Adjusted EBITDA (1)	**14,492**	8,502	6,869	4,577	19,269	12,693	15,106	11,495
Funds from operations(1)	**11,803**	7,118	5,421	2,149	20,508	11,814	14,920	10,323

(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.

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2021	2020
Funds from operations (1)	**11,803**	20,508

	Mar. 31, '21	Dec. 31, '20
Working capital (1)	**59,595**	55,524

(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 reduced activity levels as the industry continues to recover from the COVID-19 pandemic, the Corporation in the first quarter of 2021 realized funds from operations of $11.8 million, a decrease compared to $20.5 million in 2020-quarter.

As at March 31, 2021, the Corporation had working capital of $59.6 million, which is $4.1 million higher than the $55.5 million reported at December 31, 2020. The increase to working capital at March 31, 2021 was primarily due to higher trade and other receivables resulting from the continuing recovery of activity in the 2021-quarter compared to the fourth quarter of 2020.

Cash Flow and Dividends

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

For the three-month period ended March 31, 2021, dividends of $1.3 million (2020 – $nil) were financed from the Corporation's funds from operations.

Investing Activities

PHX Energy used net cash in investing activities of $0.8 million in the first quarter of 2021 compared to $10.3 million in the 2020-quarter. In the first quarter of 2021, the Corporation received proceeds of $3.8 million (2020 - $3.3 million) from the disposition of drilling equipment, primarily related to the involuntary disposal of drilling equipment in well bores. Additionally, the Corporation spent $6.9 million on capital expenditures in the first quarter of 2021 (2020 - $18.9 million). These expenditures included:

- $3.5 million downhole performance drilling motors,
- $2.1 million in MWD systems and spare components;
- $1.3 million in machining and equipment, RSS, and other assets.

The capital expenditure program undertaken in the 2021-period was financed from funds from operations. Of the total capital expenditures in the 2021-quarter, $4.6 million was used to grow the Corporation's fleet of drilling equipment and the remaining $2.3 million was used to maintain the current fleet of drilling and other equipment.

The change in non-cash working capital balance of $2.3 million (source of cash) for the three-month period ended March 31, 2021 (2020 - $5.3 million source of cash), relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets.

Financing Activities

The Corporation reported cash flows used in financing activities of $2.9 million in the three-month period ended March 31, 2021 as compared to $4.3 million in the comparable 2020-quarter. In the 2021-quarter:

- under the Corporation's NCIB, $1.2 million was spent on repurchase of common shares;
- dividends of $1.3 million were paid to shareholders;
- 225,267 common shares were issued for proceeds of $0.4 million upon the exercise of share options; and,
- the Corporation made payments of $0.8 million towards lease liabilities.

Capital Resources

As of March 31, 2021, the Corporation had no draws on its syndicated and operating facilities and a cash balance of $23.5 million. Subject to a borrowing base limit of $84 million, the Corporation had CAD $65 million and USD $15 million available to be drawn from its credit facilities as at March 31, 2021. The credit facilities are secured by substantially all of the Corporation's assets.

As at March 31, 2021, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at March 31, 2021**
Debt to covenant EBITDA (1)	<3.0x	**n.m.**
Interest coverage ratio	>3.0x	**49.18**

n.m. – not meaningful

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

Subsequent to March 31, 2021 the syndicated loan credit agreement was amended to extend the maturity date to December 12, 2023.

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 9, 2021, the Corporation announced an increase to its 2021 capital expenditure program from $15 million to $25 million. The increase to the capital expenditure program is primarily dedicated to growing the Velocity and Atlas fleets to address expected higher activity levels for the remainder of 2021.

These planned expenditures are expected to be financed from cash flow from operations and / or the Corporation's unused credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2021, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at March 31, 2021, the Corporation has commitments to purchase drilling and other equipment for $12.1 million, with delivery of these purchases expected to occur by the end of the second quarter of 2021.

Off-Balance Sheet Arrangements

The Corporation had no off-balance sheet arrangements as at March 31, 2021 and 2020.

Proposed Transactions

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

In the fourth quarter of 2020, PHX Energy entered into a preliminary sale and purchase agreement with Well Tech Services Ltd. for the sale of Phoenix TSR. The transaction is expected to be completed in the second quarter of 2021, subject to entering into of definitive documentation and satisfaction of certain conditions.

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, 2020.

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

In preparing the condensed consolidated interim financial statements, the significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2020.

Business Risk Factors

The business risk factors applicable to the Corporation have not materially changed since December 31, 2020. Refer to the "Business Risk Factors" section of the MD&A in PHX Energy's 2020 annual report as well as in the Corporation's most recent Annual Information Form filed on SEDAR at www.sedar.com.

Corporate Governance

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

Internal Controls Over Financial Reporting

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

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

There were no changes in the Corporation's ICFR that occurred during the period beginning on January 1, 2021 and ended on March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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

Outstanding Corporation Share Data

	As at May 5, 2021
Common shares outstanding	50,390,299
Dilutive securities:	
Options	3,620,000
Corporation shares – diluted	54,010,299

Outlook

In the first quarter of 2021 the gradual industry recovery continued, and our results also continued to improve. We achieved positive adjusted EBITDA and earnings and maintained a strong cash position with no bank debt while funding the purchase of the remaining shares under our NCIB, the quarterly dividend payments and additional capital expenditures to fuel anticipated growth.

During the first quarter we announced a $10 million increase to our capital expenditure program and that we had entered a technology partnership in the MENA market. As our US operations continue to see increased demand with climbing US rig counts and the anticipated uptick in Canadian rig activity after the spring break up period, we believe we will require greater capacity in our fleet of premium technologies. This includes our fleet of PowerDrive Orbit RSS in the US, and we have now added 4 additional systems to bring the total fleet to 22 systems. We were already the largest independent provider of this technology in the US market, and these additional RSS further set us apart from our competitors. The first quarter showed strong RSS activity and we foresee more opportunities to deploy this technology in the remainder of 2021. By increasing our fleet size, we maximize the margins when compared to renting this technology to meet demand.

In addition to expanding the RSS, Velocity and Atlas fleets in North America, a portion of the increase in capital expenditures was dedicated toward our technology partnership in the MENA region. Currently, we, in partnership with NESR, are in the qualification process for a key client. This required us to deploy a small fleet of equipment and personnel to drill qualification wells and thus far the wells we have drilled have produced several operating records. These results lead us to be optimistic that we will become a qualified supplier in the region, albeit we anticipate this process will take some time with the material ramp up expected in the 2022-year.

We are cautiously optimistic for 2021, anticipating that the second half of the year will be busier in Canada and in the US there will be further gains in the active rig count. We believe the Atlas and Velocity equipment we have on order will help us meet the demand and continue to deliver superior operational performance, especially in the US where we strive to maintain our new level of market share.

In Russia, the sale process is still ongoing and we still anticipate this to close during the second quarter. In Albania our operations remain suspended as we continue to wait for our key client in the region to determine if they will resume operations, and we will evaluate the feasibility of continuing our operations in the region.

While we manage this growth, we remain diligently focused on maintaining our strong financial position and building long-term shareholder rewards. We are in the enviable position that allowed us to fund our increased capital expenditures from our cash on hand while maintaining our balance sheet strength and continuing to pay a quarterly dividend. We believe the market price of our common shares does not currently reflect their underlying value and will continue to strive to improve the valuation of our common shares, which could include renewing our NCIB early in the third quarter.

Our strong financial and operational positions are supplemented by our ESG efforts and during the quarter we have focused our efforts on strategies that will help us achieve our 2021 targets discussed in our ESG report, including changes at our facilities to reduce energy consumption.

As 2021 progresses we will continue to protect our financial strength, as we grow our position as a market leader in premium technology and operational performance.

Michael Buker
President
May 5, 2021

Non-GAAP Measures

Adjusted EBITDA

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2021	2020
Earnings (loss) from continuing operations:	**5,335**	**(2,157)**
Add (deduct):		
Depreciation and amortization drilling and other equipment	**6,232**	**7,423**
Depreciation and amortization right-of-use asset	**836**	**924**
Provision for income taxes	**1,252**	**1,376**
Finance expense	**171**	**345**
Finance expense lease liability	**548**	**543**
Equity-settled share-based payments	**69**	**63**
Unrealized foreign exchange (gain) loss	**49**	**(67)**
Impairment loss	**-**	**10,249**
Severance	**-**	**570**
Adjusted EBITDA as reported	**14,492**	19,269

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,	
	2021	2020
Net cash flows from operating activities	**1,506**	11,739
Add (deduct):		
Changes in non-cash working capital	**10,226**	8,484
Interest paid	**59**	196
Income taxes paid (received)	**12**	89
Funds from operations	**11,803**	20,508

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

Free Cash Flow

Free cash flow is defined as funds from operations (as defined above) less maintenance capital expenditures and cash payment on leases. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses free cash flow as an indication of the Corporation's ability to generate funds from its operations to support operations and maintain the Corporation's drilling and other equipment. This performance measure is useful to investors for assessing the Corporation's operating and financial performance, leverage and liquidity. Investors should be cautioned, however, that this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. PHX Energy's method of calculating free cash flow may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of funds from operations to free cash flow:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2021	2020
Funds from operations (1)	**11,803**	20,508
Deduct:		
Maintenance capital expenditures	**(2,259)**	(2,490)
Cash payment on leases	**(1,340)**	(1,460)
Free cash flow	**8,204**	16,558

(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.

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, and IFRS 16 Leases 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. Working capital excludes assets held for sale and liabilities associated with assets held for sale. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses working capital to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating working capital may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

Net Debt

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

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, 2021**		December 31, 2020
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**23,468,419**	$	25,745,911
Trade and other receivables		**57,284,205**		43,193,310
Inventories		**27,897,872**		26,665,902
Prepaid expenses		**3,088,467**		1,926,336
Current tax assets		**220,159**		219,400
Assets held for sale (Note 4)		**3,778,198**		4,405,516
Total current assets		**115,737,320**		102,156,375
Non-current assets:				
Drilling and other long-term assets (Note 6)		**68,397,128**		68,933,236
Right-of-use asset		**28,036,949**		28,956,908
Intangible assets		**15,748,499**		16,204,673
Deferred tax assets		**279,640**		289,542
Total non-current assets		**112,462,216**		114,384,359
Total assets	**$**	**228,199,536**	$	216,540,734
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Trade and other payables	**$**	**47,434,006**	$	37,562,481
Lease liability		**3,449,821**		3,398,559
Dividends payable (Note 8d)		**1,259,758**		1,265,648
Liabilities directly associated with assets held for sale (Note 4)		**814,304**		943,063
Total current liabilities		**52,957,889**		43,169,751
Non-current liabilities:				
Lease liability		**34,726,191**		35,698,084
Deferred tax liability		**6,799,288**		5,640,261
Total non-current liabilities		**41,525,479**		41,338,345
Equity:				
Share capital (Note 8a)		**246,966,015**		247,543,263
Contributed surplus		**9,968,673**		10,131,786
Retained earnings		**(133,334,136)**		(136,939,398)
Accumulated other comprehensive income		**20,891,437**		21,707,101
Accumulated other comprehensive loss related to assets held for sale		**(10,775,821)**		(10,410,114)
Total equity		**133,716,168**		132,032,638
Total liabilities and equity	**$**	**228,199,536**	$	216,540,734

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)		Three-month periods ended March 31,		
		2021		2020
Revenue	**$**	**68,546,737**	$	98,901,788
Direct costs		**54,516,051**		79,877,966
Gross profit		**14,030,686**		19,023,822
Expenses:				
Selling, general and administrative expenses		**8,982,410**		6,501,831
Research and development expenses		**560,101**		1,272,417
Finance expense		**171,225**		345,220
Finance expense lease liability		**548,474**		542,508
Other expense (income) (Note 9)		**(2,818,672)**		894,074
Impairment loss		**-**		10,248,719
		7,443,538		19,804,769
Earnings (loss) from continuing operations before income taxes		**6,587,148**		(780,947)
Provision for (Recovery of) income taxes				
Current		**8,834**		(202,490)
Deferred		**1,243,457**		1,578,813
		1,252,291		1,376,323
Earnings (loss) from continuing operations		**5,334,857**		(2,157,270)
Discontinued operations				
Net loss from discontinued operations, net of taxes (Note 4)		**(469,837)**		(1,163,416)
Net earnings (loss)		**4,865,020**		(3,320,686)
Other comprehensive income (loss)				
Foreign currency translation		**(1,181,371)**		8,572,509
Total comprehensive income for the period	**$**	**3,683,649**	$	5,251,823
Earnings (loss) per share – basic and diluted				
Continuing operations	**$**	**0.11**	$	(0.04)
Discontinued operations	**$**	**(0.01)**	$	(0.02)
Net earnings (loss)	**$**	**0.10**	$	(0.06)

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

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

Three-month period ended March 31, 2020	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance, December 31, 2019	53,246,420	$ 251,815,183	$ 10,854,650	$ 14,176,847	$ (127,902,593)	$ 148,944,087
Net issuance of share capital	5,000	7,750	-	-	-	7,750
Surrender value of options exercised	-	(1,518,042)	-	-	-	(1,518,042)
Share-based payments	-	-	63,212	-	-	63,212
Fair value of options exercised	-	914,857	(914,857)	-	-	-
Net loss	-	-	-	-	(3,320,686)	(3,320,686)
Foreign currency translation, net of tax	-	-	-	8,572,509	-	8,572,509
Balance, March 31, 2020	53,251,420	$ 251,219,748	$ 10,003,005	$ 22,749,356	$ (131,223,279)	$ 152,748,830

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)	Three-month periods ended March 31, 2021	2020
Cash flows from operating activities:		
Earnings (loss) from continuing operations	**$ 5,334,857**	$ (2,157,270)
Adjustments for:		
Depreciation and amortization drilling and other equipment	**6,232,149**	7,423,073
Depreciation and amortization right-of-use asset	**835,899**	923,826
Provision for income taxes	**1,252,291**	1,376,323
Unrealized foreign exchange loss (gain)	**48,639**	(67,212)
Gain on disposition of drilling equipment	**(2,819,162)**	(1,850,257)
Equity-settled share-based payments	**68,501**	63,212
Finance expense	**171,225**	345,220
Provision for inventory obsolescence	**679,343**	1,085,978
Interest paid	**(59,373)**	(196,020)
Income taxes paid	**(12,219)**	(89,195)
Impairment loss	**-**	10,248,719
Provision for bad debts	**-**	3,116,613
Change in non-cash working capital	**(10,226,482)**	(8,483,652)
Continuing operations	**1,505,668**	11,739,358
Discontinued operations	**(117,590)**	(609,661)
Net cash from operating activities	**1,388,078**	11,129,697
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**3,784,873**	3,347,129
Acquisition of drilling and other equipment	**(6,889,517)**	(18,867,385)
Change in non-cash working capital	**2,304,501**	5,259,884
Continuing operations	**(800,143)**	(10,260,372)
Discontinued operations	**449**	(4,129)
Net cash used in investing activities	**(799,694)**	(10,264,501)
Cash flows from financing activities:		
Proceeds from issuance of share capital	**395,271**	7,750
Repurchase of shares under the NCIB	**(1,204,133)**	-
Dividends paid to shareholders	**(1,265,648)**	-
Payments of lease liability	**(791,366)**	(917,491)
Repayment of operating facility	**-**	(11,236,169)
Proceeds from loans and borrowings	**-**	9,402,400
Surrender value cash payment	**-**	(1,518,042)
Continuing operations	**(2,865,876)**	(4,261,552)
Discontinued operations	**-**	(6,396)
Net cash used in financing activities	**(2,865,876)**	(4,267,948)
Net decrease in cash and cash equivalents	**(2,277,492)**	(3,402,752)
Cash and cash equivalents, beginning of period	**25,745,911**	10,582,296
Cash and cash equivalents, end of period	**$ 23,468,419**	$ 7,179,544

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, 2021 and 2020

In Canadian dollars (unaudited)

1. Reporting Entity

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

The Corporation, through its subsidiaries, provides horizontal and directional drilling services to oil and natural gas exploration and development companies in Canada, United States, and Albania. 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. The Corporation has presented its operations in Russia as a discontinued operation (see Note 4).

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, 2020.

These condensed consolidated interim financial statements were authorized by the Board of Directors on May 5, 2021.

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, 2020.

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, 2020, unless specified.

4. Assets Held for Sale

During the fourth quarter of 2020 management committed to a plan to sell the Russian division, operating under the entity Phoenix TSR LLC (“Phoenix TSR”). Accordingly, Phoenix TSR is represented as a disposal group held for sale. Efforts to sell the disposal group have continued and a sale is expected in the second quarter of 2021.

The disposal group was stated at fair value less costs to sell and comprised the following assets and liabilities as at:

		March 31, 2021		December 31, 2020
Trade and other receivables	**$**	**1,017,848**	$	1,494,184
Inventories		**766,985**		819,699
Prepaid expenses		**118,049**		139,130
Drilling and other equipment		**1,875,316**		1,952,503
Assets held for sale	**$**	**3,778,198**	$	4,405,516

		March 31, 2021		December 31, 2020
Trade and other payables	**$**	**814,304**	$	943,063
Liabilities directly associated with assets held for sale	**$**	**814,304**	$	943,063

The held for sale assets and liabilities of Phoenix TSR met the criteria for discontinued operations in the fourth quarter of 2020, as such the comparative consolidated statements of comprehensive loss and statements of cash flow for the three-month period ended March 31, 2020 have been re-presented to show the discontinued operations separate from the continuing operations of the Corporation.

The results of the held for sale Phoenix TSR operations are as follows:

	Three-month periods ended March 31,			
		2021		2020
Revenue	**$**	**1,559,054**	$	4,118,006
Expenses		**2,029,970**		5,281,697
Loss from discontinued operations		**(470,916)**		(1,163,691)
Income tax expense from discontinued operations		**(1,079)**		(275)
Net loss from discontinued operations, net of taxes	**$**	**(469,837)**	$	(1,163,416)

5. Operating Segments

The Corporation provides horizontal and directional drilling 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,	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Total Revenue	**15,446**	24,587	**53,101**	74,315	**-**	-	**68,547**	98,902
Reportable segment profit (loss) before income taxes	**2,326**	3,292	**5,583**	10,396	**(327)**	83	**7,582**	13,771

(Stated in thousands of dollars)

	Canada		United States		International		Total	
As at March 31,	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Drilling and other equipment	**14,658**	17,008	**53,211**	71,618	**528**	875	**68,397**	89,501

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2021	2020
Reportable segment income before income taxes	**7,582**	13,771
Corporate:		
Selling, general and administrative expenses	**2,535**	1,249
Research and development expenses	**560**	1,272
Finance expense	**171**	345
Finance expense lease liability	**548**	543
Impairment expense	**-**	10,249
Other expenses (income)	**(2,819)**	894
Earnings (loss) before income taxes	**6,587**	(781)

6. Drilling and Other Equipment

a) Acquisitions and Disposals

During the three-month period ended March 31, 2021, the Corporation acquired assets with a cost of $6.9 million (2020 - $18.9 million).

Assets with a carrying amount of $1 million (2020 - $1.5 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $2.8 million (2020 - $1.9 million), which is included in other income in the condensed consolidated statements of comprehensive income.

b) Capital Commitments

As at March 31, 2021, the Corporation has commitments to purchase drilling and other equipment for $12.1 million, delivery is expected to occur by the end of the second quarter.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at March 31, 2021**	Currency	Carrying Amount at December 31, 2020
Operating Facility	CAD	15,000	Due on demand	CAD	**-**	CAD	-
Syndicated Facility	CAD	50,000	December 11, 2022	CAD	**-**	CAD	-
US Operating Facility	USD	15,000	December 11, 2022	USD	**-**	USD	-

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at March 31, 2021, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**March 31, 2021**
Debt to covenant EBITDA	< 3.0x	**n.m.**
Interest coverage ratio	>3.0x	**49.18**

n.m. – not meaningful

Subsequent to March 31, 2021, the syndicated loan credit agreement was amended to extend the maturity date to December 12, 2023.

As at March 31, 2021 the Corporation has CAD $65 million and USD $15 million available to be drawn from its credit facilities with a borrowing base limited to $84 million.

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

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, 2020	53,246,420	$	251,815,183
Common shares repurchased	(2,670,500)		(3,796,095)
Surrender value of options exercised	-		(608,724)
Issued shares pursuant to share option plan	50,000		132,899
Balance as at December 31, 2020	50,625,920	$	247,543,263
Common shares repurchased	**(460,888)**		**(1,204,133)**
Issued shares pursuant to share option plan	**225,267**		**626,885**
Balance as at March 31, 2021	**50,390,299**	**$**	**246,966,015**

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 2021

Number		Exercise Price	Expiration Date		Fair Value
300,000	$	2.74	March 5, 2026	$	0.94
200,000		2.64	March 5, 2026		0.97
500,000					

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 2021 these variables include, but are not limited to, the

Corporation's expected share price volatility over the term of the options of 57 percent, forfeiture rate of nil, dividend yield of 3.61 percent and a risk-free interest rate of 0.3 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, 2021, the Corporation recognized total compensation expense of $69 thousand (2020 - $63 thousand) for share options granted between 2018 and 2021.

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

		2021		2020
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**3,345,267**	**$ 3.01**	4,783,601	$ 3.35
Granted	**500,000**	**2.70**	250,000	2.15
Exercised	**(225,267)**	**1.75**	(5,000)	1.55
Forfeited / cancelled	**-**	**-**	(870,834)	1.69
Expired	**-**	**-**	(667,500)	6.88
Outstanding, end of period	**3,620,000**	**3.04**	3,490,267	3.00
Options exercisable, end of period	**2,869,995**	**3.16**	2,990,262	3.11

The range of exercise prices for options outstanding at March 31, 2021 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
175,000	1.38 yrs	$ 1.71	175,000	$ 1.71
575,000	1.38 yrs	1.79	575,000	1.79
50,000	1.94 yrs	1.95	50,000	1.95
200,000	1.94 yrs	2.00	200,000	2.00
100,000	3.93 yrs	2.09	33,332	2.09
150,000	3.93 yrs	2.19	49,998	2.19
200,000	4.93 yrs	2.64	-	2.64
300,000	4.93 yrs	2.74	-	2.74
200,000	2.94 yrs	2.81	133,332	2.81
50,000	2.94 yrs	2.83	33,333	2.83
25,000	0.64 yrs	3.41	25,000	3.41
1,180,000	0.92 yrs	4.06	1,180,000	4.06
415,000	0.92 yrs	4.15	415,000	4.15
3,620,000	1.99 yrs	$ 3.04	2,869,995	$ 3.16

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, 2021, 750,000 PAs were granted (2020 – 750,000), 757,184 PAs settled at a weighted average payout multiplier of 150 percent (2020 – 566,668), no PAs were forfeited (2020 - nil), and, as at March 31, 2021, 1,507,184 PAs were outstanding (2020 – 1,500,000).

The Corporation recorded a total of $2.6 million compensation expense relating to these plans for the quarter ended March 31, 2021 (2020 – $3.4 million recovery). The expense is included in selling, general and administrative expense and has a corresponding liability included in trade and other payables. There were 3,498,566 RAs and PAs outstanding as at March 31, 2021 (2020 – 3,515,507).

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

	2021	2020
RAs and PAs outstanding, beginning of period	**3,487,297**	3,555,634
Granted	**1,524,340**	1,425,158
Settled	**(1,502,941)**	(1,416,113)
Forfeited / cancelled	**(10,130)**	(49,172)
RAs and PAs outstanding, end of period	**3,498,566**	3,515,507

d) Dividends

On March 15, 2021, the Corporation declared a dividend of $0.025 per share or $1.3 million, payable on April 15, 2021.

e) Normal Course Issuer Bid

During the third quarter of 2020, the TSX approved the renewal of PHX Energy's Normal Course Issuer Bid ("NCIB") to purchase for cancellation, from time-to-time, up to a maximum of 3,131,388 common shares, representing 10 percent of the Corporation's public float of Common Shares as at July 31, 2020. The NCIB commenced on August 14, 2020 and will terminate on August 13, 2021. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the current NCIB, subsequent to August 14, 2020, 2,670,500 common shares were purchased by the Corporation and cancelled as at December 31, 2020.

For the three-month period ended March 31, 2021, the Corporation purchased and cancelled an additional 460,888 shares and completed the current NCIB (2020 - nil).

The Corporation's previous NCIB commenced on August 9, 2019 and terminated on August 8, 2020. Pursuant to the previous NCIB, 2,524,500 common shares in total were purchased and cancelled by the Corporation as at December 31, 2019.

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2021	2020
Gain on disposition of drilling equipment	**(2,819)**	(1,850)
Foreign exchange gains	**-**	(373)
Provision for bad debts	**-**	3,117
Other expenses (income)	**(2,819)**	894

10. Fair Values of Financial Instruments

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

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 Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Daniel Blanchard
Vice President Executive Sales

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

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