2023 First Quarter Report

PHX ENERGY SERVICES CORP.

Management's Discussion and Analysis

First Quarter Report for the three-month periods ended March 31, 2023 and 2022

The following Management's Discussion and Analysis ("MD&A") of the financial condition, results of operations, and cash flow of PHX Energy Services Corp. ("PHX Energy" or the "Corporation") should be read in conjunction with the Corporation's 2022 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 2022 annual report, and the Corporation's 2023 unaudited interim first quarter report, including the unaudited condensed consolidated interim financial statements and the accompanying notes contained therein as well as other sections contained within the Corporation's 2023 first quarter report. Readers can also obtain additional information on the Corporation including its most recently filed Annual Information Circular and Annual Information Form ("AIF") on SEDAR at www.sedar.com. This MD&A has been prepared taking into consideration information available up to and including May 9, 2023.

PHX Energy's Interim Financial Report for the three-month periods ended March 31, 2023 and 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. The MD&A and Interim Financial Report was reviewed by PHX Energy's Audit Committee and approved by PHX Energy's Board of Directors (the "Board") on May 9, 2023.

This MD&A contains Forward-Looking Information and Non-GAAP and Other Financial Measures, including Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures. Please refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for applicable definitions and reconciliations. Please refer to the "Cautionary Statement Regarding Forward-Looking Information and Statements" section of this MD&A.

First Quarter Highlights

- In the 2023-quarter, consolidated revenue was $166 million, the highest level of quarterly revenue on record and an increase of 52 percent from the first quarter of 2022.
- Adjusted EBITDA[1] from continuing operations increased to an all-time quarterly record of $37 million, which represented 22 percent of consolidated revenue[1], also the highest quarterly record. Included in the 2023-quarter's adjusted EBITDA is $1.4 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations[1] in the first quarter of 2023 was $38.4 million, 23 percent of consolidated revenue.
- For the three-month period ended March 31, 2023, PHX Energy's earnings from continuing operations increased to $22.4 million, the highest level of quarterly earnings in the Corporation's history.
- PHX Energy's US division's revenue of $125.7 million is virtually the same as the record quarterly revenue generated in the fourth quarter of 2022. Excluding the impact of foreign exchange, the 2023 first quarter was an all-time quarterly record revenue for PHX Energy's US operations. US revenue represented 76 percent of consolidated revenue.
- PHX Energy's Canadian division reported its highest level of quarterly revenue since the fourth quarter of 2014.

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- The US dollar remained strong and continued to have a favorable impact on the 2023-quarter's financial results. In the 2023 three-month period, the average US dollar to Canadian dollar foreign exchange rate was 1.35 compared to 1.27 in the 2022-period.
- The Corporation generated excess cash flow [2] of $19.2 million in the 2023 three-month period.
- In the 2023-quarter, PHX Energy paid $7.6 million in dividends which is triple the dividend amount paid in the same 2022-quarter. On March 15, 2023, the Corporation declared a dividend of $0.15 per share or $7.7 million, paid on April 17, 2023 to shareholders of record on March 31, 2023.
- The Corporation continues to maintain a strong financial position with working capital[2] of $105.7 million and net debt[2] of $14.3 million with credit facility capacity in excess of $50 million as at March 31, 2023.

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Financial Highlights

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

	Three-months ended March 31,		
	2023	2022	% Change
Operating Results – Continuing Operations			
Revenue	**166,022**	109,304	52
Earnings	**22,417**	(2,315)	n.m.
Earnings per share – diluted	**0.42**	(0.05)	n.m.
Adjusted EBITDA (1)	**37,000**	6,444	474
Adjusted EBITDA per share – diluted (1)	**0.69**	0.13	431
Adjusted EBITDA as a percentage of revenue (1)	**22%**	6%	
Cash Flow – Continuing Operations			
Cash flows from (used in) operating activities	**3,905**	(3,423)	n.m.
Funds from operations (2)	**26,737**	2,882	n.m.
Funds from operations per share – diluted (3)	**0.50**	0.06	n.m.
Dividends paid per share (3)	**0.15**	0.05	200
Dividends paid	**7,636**	2,482	208
Capital expenditures	**18,583**	18,206	2
Excess cash flow (2)	**19,232**	(11,394)	n.m.
Financial Position, March 31,			
Working capital (2)	**105,717**	94,339	12
Net debt (2)	**14,345**	4,484	220
Shareholders' equity	**191,667**	176,878	8
Common shares outstanding	**50,981,844**	50,896,175	n.m.

n.m. – not meaningful

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Non-GAAP and Other Financial Measures

Throughout this MD&A, PHX Energy uses certain measures to analyze financial performance, financial position, and cash flow. These Non-GAAP and other specified financial measures do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP") and include Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures (collectively referred to as "Non-GAAP and Other Financial Measures"). These non-GAAP and other specified financial measures include, but are not limited to, adjusted EBITDA, adjusted EBITDA per share, adjusted EBITDA as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, funds from operations, funds from operations per share, excess cash flow, net capital expenditures, 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 and Other Financial Measures" section of this MD&A for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Outlook

In the first quarter of 2023, we have continued to produce record quarterly financial results in revenue, adjusted EBITDA and net earnings. Although currently there is some uncertainty in the market, we remain cautiously optimistic that our operational strength will continue to produce strong financial results.

- As anticipated the North American rig count in the first quarter was relatively flat compared to the fourth quarter. With the recent weakening of commodity prices, the US rig count is currently down 3 percent from the start of this year and in Canada, due to the typical slower spring break up period, the rig count has decreased 44 percent.
- With this weakening we have experienced a similar reduction in activity in the US, and expect these slightly lower than forecasted activity levels to persist for a few months as the rig count stabilizes. This has been partially offset by the demand for our premium technology remaining strong and in particular our RSS offering which generates higher day rates. Despite these industry pressures thus far in 2023, activity levels are strong for our US operations on a historical basis and we foresee maintaining our market share.
- In Canada, the strong activity from the first quarter is continuing with a more active spring break up period for our operations, partially due to our client mix and their drilling areas being less impacted by the spring thaw.

- We believe that activity levels will rebound in the latter part of the year, and our capital expenditures will provide the required capacity to keep pace with this. Despite the slowdown, our Atlas motors remain in high demand and with new opportunities to market these motors, they make up a large portion of the capital expenditures budget.
- We have recently entered into an Atlas sales agreement with a client and are actively trying to expand this portion of our business and customer base. We believe that creating an Atlas sales division will allow us to further penetrate the North American market, and possibly other international markets. This business line is complementary to our full service directional offering and opens a portion of the market that may not be accessible on a full-service basis. We anticipate the additional revenue and associated margins will bolster our already strong financial position.
- We are committed to providing shareholder's attractive total return, and believe we have sustainable dividend program which we intend to supplement through our Return to Capital Strategy ("ROCS") which will potentially allow us to return up to 70 percent of excess cash flow to shareholders. We will remain disciplined with our cost and capital management to ensure we preserve our balance sheet strength and remain positioned as a leader within the energy services sector.

We remain cautiously optimistic for the remainder of the 2023 year, and with our exceptional team of people we will execute on our strategic and operational objectives to continue to outperform in our sector. Even with the softening industry environment, our industry leading technology and superior customer services provide us with competitive advantages we can continue to leverage.

Michael Buker, President
May 9, 2023

Financial Results

In the first quarter of 2023, PHX Energy achieved all-time record levels of quarterly consolidated revenue, adjusted EBITDA[(1)], and earnings from continuing operations.

North American drilling activity in the 2023-period held steady from the strong industry levels seen in the last quarter of 2022. These favourable market conditions coupled with the Corporation's superior marketing and operational performance resulted in PHX Energy generating its highest quarterly consolidated revenue in its history. For the three-month period ended March 31, 2023, consolidated revenue was $166 million, an increase of 52 percent as compared to $109.3 million in the 2022-quarter. Consolidated activity levels grew by 17 percent to 7,955 operating days from 6,796 operating days in the corresponding 2022-quarter. PHX Energy's average consolidated revenue per day[(3)] for directional drilling services improved by 26 percent quarter-over-quarter. Throughout 2022 and into 2023, the Corporation was able to implement pricing increases as a result of favourable industry conditions, ongoing strong demand for its premium technologies, and efforts to offset inflationary costs.

In the 2023 three-month period, PHX Energy's US division revenue grew by 54 percent to $125.7 million as compared to $81.8 million in the same 2022-period, and was the same level as the fourth quarter of 2022 due to industry activity being flat. US operating days increased by 19 percent from 4,046 in the first quarter of 2022 to 4,820 in the first quarter of 2023 while US average revenue per day[(3)] for directional drilling services improved by 26 percent quarter-over-quarter. Revenue from the Corporation's US segment represented 76 percent of consolidated revenue in the 2023 three-month period (2022 – 75 percent).

In the first quarter of 2023, the Corporation's Canadian division saw its highest quarterly revenue since the fourth quarter of 2014. PHX Energy's Canadian segment generated revenue of $39.2 million, a 45 percent increase from $27.1 million in the same 2022-quarter. The Canadian industry was more active compared to the first quarter of 2022 and as a result, the Corporation's Canadian operating days also improved by 12 percent to 3,051 days in the 2023-quarter from the 2,730 operating days realized in the comparable 2022-period. Average revenue per day realized by the Canadian segment also improved by 27 percent quarter-over-quarter.

PHX Energy continued to reach record levels of adjusted EBITDA and earnings from continuing operations as a result of its strong activity and operational performance coupled with diligent supply chain and cost management strategies to mitigate the negative impacts of component shortages and inflationary pressures. In the first quarter of 2023, adjusted EBITDA from

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continuing operations[1] increased to $37 million (22 percent of revenue) which is six times the adjusted EBITDA reported in the same 2022-quarter of $6.4 million (6 percent of revenue). Earnings from continuing operations increased to $22.4 million from a loss of $2.3 million in the comparable 2022-period. Included in the 2023 three-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $1.4 million (2022 - $11.7 million). Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations[1] for the three-month period ended March 31, 2023 is $38.4 million (2022 - $18.2 million).

As at March 31, 2023, the Corporation had working capital[2] of $105.7 million and net debt[2] of $14.3 million with available credit facilities in excess of $50 million.

Dividends and ROCS

On March 15, 2023, the Corporation declared a dividend of $0.15 per share to the shareholders of record on March 31, 2023. An aggregate of $7.6 million was paid on April 7, 2023. This is double the dividend declared in the 2022-quarter.

The Corporation remains committed to enhancing shareholder returns through multiple tools, including its dividend program, its Return on Capital Strategy ("ROCS"), and the Normal Course Issuer Bid.

Capital Spending

In the first quarter of 2023, the Corporation spent $18.6 million in capital expenditures, of which $10 million was spent on growing the Corporation's fleet of drilling equipment, $4.8 million was spent to replace retired assets, and $3.8 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $12.4 million, the Corporation's net capital expenditures[2] for the 2023-quarter were $6.2 million. Capital expenditures in the 2023-quarter were primarily directed towards Atlas High Performance motors ("Atlas"), Velocity Real-Time systems ("Velocity"), and PowerDrive Orbit Rotary Steerable Systems ("RSS"). PHX Energy funded capital spending primarily using proceeds on disposition of drilling equipment, cash flows from operating activities, and its credit facilities when required.

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(Stated in thousands of dollars)

	Three-month periods ended March 31,
	2023
Growth capital expenditures	**9,955**
Maintenance capital expenditures from asset retirements	**4,857**
Maintenance capital expenditures from downhole equipment losses	**3,771**
	18,583
Deduct:	
Proceeds on disposition of drilling equipment	**(12,417)**
Net capital expenditures[(2)]	**6,166**

The approved capital expenditure budget for the 2023-year, excluding proceeds on disposition of drilling equipment, is $61.5 million, which includes $11.5 million of carryover from the 2022 budget. Of the total expenditures, $41.8 million is expected to be allocated to growth capital and the remaining $19.7 million is expected to be allocated towards maintenance of the existing fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations. The maintenance capital amount could increase throughout the year should there be more downhole equipment losses than forecasted. These increases would likely be funded by proceeds on disposition of drilling equipment.

As at March 31, 2023, the Corporation has capital commitments to purchase drilling and other equipment for $32.5 million, $16.7 million of which is growth capital and includes $15.7 million for performance drilling motors and $1 million for other equipment. Equipment on order as at March 31, 2023 is expected to be delivered within 2023.

The Corporation currently possesses approximately 720 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8" and 9" Atlas motors, 112 Velocity systems, and 51 PowerDrive Orbit RSS, the largest independent fleet in North America.

Sale and Licensed Use of Atlas Motors

On May 3, 2023, PHX Energy entered into a sales agreement for the sale and licensed use of its Atlas High Performance Drilling Motors. PHX Energy will be providing a fleet of Atlas motors to a purchaser in the US market (referred to as the “Purchaser”). Under the agreement, the Purchaser must exclusively use components manufactured by the Corporation for the maintenance of their fleet of Atlas motors. PHX Energy anticipates delivering a fleet of Atlas motors amounting to $3.8 million to the Purchaser by the third quarter of 2023 and anticipates ongoing orders for parts to maintain their fleet throughout the

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remainder of the year. In addition, the Purchaser could potentially place subsequent orders for additional Atlas motors in the latter part of the year.

Supply Chain Disruptions and Inflation

Although supply chain challenges had less of an impact in the first quarter 2023, inflation and shortages related to the products and services required within the energy sector were ongoing, including those within the Corporation's supply chain. As a result of these shortages, lead times remain extended and turn-around times for servicing the Corporation's premium technologies remain longer than usual, resulting in limited equipment utilization and constrained activity growth. Inflationary pressures also carried through 2023 and the resulting overall cost increases continued to negatively impact the Corporation's margins.

PHX Energy has remained diligent and proactive with efforts to lessen the supply chain disruptions' impact on its operations. Specifically, the Corporation continues to maintain higher minimum safety stock levels and take advantage of pre-ordering materials to manufacture technology and obtain bulk discounts, and as a result, high inventory levels remained and have increased by 5 percent from $63.1 million at the end of 2022 to $66.1 million at March 31, 2023. In addition, the Corporation also continues to pursue pricing increases where it deems necessary to mitigate the impact of inflationary costs and to protect its margins.

Additional information regarding certain material risks and uncertainties, and their impact on the Corporation's business can be found throughout this MD&A, including under the headings "Capital Spending", "Operating Costs and Expenses", "Segmented Information" and "Outlook".

Shares Held in Trust

For the three-month period ended March 31, 2023, the Corporation equity settled a portion of its outstanding Retention Awards ("RA") granted under its Retention Award Plan (the "RAP"). Pursuant to RA settlements, 68,169 common shares were released from the independent trustee in 2023 to settle $0.5 million in RAP liabilities. The independent trustee acquires common shares on the open market from time-to-time for the potential settlement of future share-based compensation obligations of the Corporation. For the three-month period ended March 31, 2023, the trustee purchased 114,000 common shares for a total cost of $0.8 million. As at March 31, 2023, 56,895 common shares were held in trust for purposes of the RAP.

Normal Course Issuer Bid

During the third quarter of 2022, 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 3,622,967 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 3, 2022. The NCIB commenced on August 16, 2022 and will terminate on August 15, 2023 or such earlier time as the NCIB is completed or terminated by PHX Energy. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems.

The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

For the three-month period ended March 31, 2023, the Corporation did not repurchase shares through its current NCIB. The Corporation did not repurchase shares through its previous NCIB in the 2022-period.

About PHX Energy Services Corp.

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

PHX Energy's Canadian directional drilling operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centers 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; Midland, Texas; Casper, Wyoming; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania, and administrative offices in Nicosia, Cyprus and Luxembourg City, Luxembourg. The Corporation also supplies technology to the Middle East regions through an arrangement with National Energy Services Reunited Corp.

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

Results of Operations

Three-Month Periods Ended March 31, 2023

Revenue

The Corporation generates revenue primarily through the provision of directional drilling services which includes providing equipment, personnel, and operational support for drilling a well. Additionally, the Corporation generates revenue through the rental and sale of drilling motors and associated parts, particularly Atlas. Recently, the revenue generated from the rental and sale of motors has grown and this is expected to continue in future periods.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Directional drilling services	**156,092**	103,391	51
Motor rental	**9,241**	5,913	56
Sale of motor equipment and parts	**689**	-	n.m.
Total revenue	**166,022**	109,304	52

n.m. – not meaningful

For the second consecutive quarter, the Corporation generated its highest level of quarterly revenue on record, surpassing the previous records set in the fourth quarter of 2022. In the first quarter of 2023, PHX Energy's consolidated revenue was $166 million, a 52 percent increase compared to the $109.3 million in the first quarter of 2022 and a 5 percent increase compared to the $157.8 million in the fourth quarter of 2022.

The continued strong demand for PHX Energy's premium technologies and the cumulative impact of previous and recent pricing increases implemented to mitigate the effects of inflationary costs greatly contributed to the increase in consolidated revenue quarter-over-quarter and the record quarterly consolidated revenue achieved in 2023. For the three-month period ended March 31, 2023, average consolidated revenue per day[(3)] for directional drilling services was $19,623, an increase of 26 percent as compared to $15,549 in the first quarter of 2022. This increase was also supported by the favorable impact of the strong US dollar in the 2023-period. PHX Energy's revenue from motor rentals grew by 56 percent to $9.2 million in the 2023-quarter from $5.9 million in the same 2022-quarter. Higher motor rental revenue in the 2023-quarter was mainly driven

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by increased capacity in the Corporation's motor fleet and a greater focus on marketing Atlas technology as a stand-alone product line.

Industry activity levels in both Canada and the US improved in the first quarter of 2023 compared to the same quarter in 2022. During the first quarter of 2023, the US industry rig count averaged 760 rigs operating per day, which is 20 percent greater than the average of 633 rigs in the first quarter of 2022 however is slightly below the average of 776 rigs in the fourth quarter of 2022. In Canada, the average rig count for the 2023 three-month period increased 12 percent to 221 rigs from 198 rigs in the first quarter of 2022 and increased 15 percent from the 193 rigs in the fourth quarter of 2022 (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, https://rigcount.bakerhughes.com/na-rig-count).

In comparison, the Corporation's consolidated operating days grew 17 percent to 7,955 days in the first quarter of 2023 from 6,796 days in the first quarter of 2022. Despite flat US industry growth, operating days in the 2023 three-month period increased 6 percent from 7,509 days generated in the fourth quarter of 2022. Activity growth in the 2023-quarter relative to the last quarter of 2022 was mainly driven by strong drilling activity in Canada.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2023	2022	% Change
Direct costs	**131,988**	91,917	44
Depreciation & amortization drilling and other equipment (included in direct costs)	**9,317**	7,277	28
Depreciation & amortization right-of-use asset (included in direct costs)	**407**	836	(51)
Gross profit as a percentage of revenue excluding depreciation & amortization[1]	**26%**	23%	

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, 2023, direct costs increased by 44 percent. Higher direct costs in the 2023-quarter were mainly driven by activity growth, greater depreciation and amortization expenses on drilling and other equipment, and increased overall costs related to personnel, repair parts, and equipment rentals as a

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result of inflation and robust activity levels. The Corporation's depreciation and amortization on drilling and other equipment for the three-month period ended March 31, 2023, increased by 28 percent, with a significant number of fixed assets received throughout 2022 and into the first quarter of 2023 as part of PHX Energy's capital expenditure program.

In the 2023 three-month period, gross profit as a percentage of revenue excluding depreciation and amortization improved to 26 percent compared to 23 percent in the corresponding 2022-period. The improvement in profitability was largely driven by higher average consolidated revenue per day and the greater volume of activity achieved in the period. In addition, the cumulative effect of the various strategies implemented by PHX Energy over the past year to soften the impact of rising costs aided its profitability. These strategies include, but are not limited to, taking advantage of volume discounts and continuous efforts to achieve cost efficiencies across all major aspects in the Corporation's operations.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2023	2022	% Change
Selling, general and administrative ("SG&A") costs	**15,556**	22,113	(30)
Cash-settled share-based compensation (included in SG&A costs)	**1,374**	11,737	(88)
Equity-settled share-based compensation (included in SG&A costs)	**101**	335	(70)
SG&A costs excluding share-based compensation as a percentage of revenue(1)	**8%**	9%	

For the three-month period ended March 31, 2023, SG&A costs were $15.6 million, a decrease of 30 percent as compared to $22.1 million in the corresponding 2022-period. Lower SG&A costs in the 2023-quarter primarily resulted from the substantial decline in compensation expenses related to cash-settled share-based awards in the current period.

Cash-settled share-based compensation relates to the Corporation's retention awards and are measured at fair value. For the three-month period ended March 31, 2023, the related compensation expense recognized by PHX Energy was $1.4 million (2022 - $11.7 million). Changes in cash-settled share-based compensation expense in the 2023-period were mainly driven by decreases in the Corporation's share price, lower number of awards granted in the period, and a decrease in the estimated payout multiplier for performance awards. There were 2,083,553 retention awards outstanding as at March 31, 2023 (2022 – 3,505,340). Excluding share-based compensation, SG&A costs as a percentage of revenue for the 2023 three-month period improved to 8 percent as compared to 9 percent, in the corresponding 2022 period.

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(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Research and development expense	**1,256**	757	66

For the three-month period ended March 31, 2023, PHX Energy's research and development ("R&D") expenditures increased by 66 percent to $1.3 million from $0.8 million in the corresponding 2022-period. Higher R&D expenditures in the 2023 three-month period were mainly due to increases in personnel-related costs and greater prototype expenses that were incurred to support PHX Energy's ongoing initiatives to improve the reliability of equipment, reduce costs to operations, and develop new technologies.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Finance expense	**667**	112	496
Finance expense lease liabilities	**576**	507	14

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period ended March 31, 2023, finance expenses increased to $0.7 million from $0.1 million in the same 2022-period primarily due to higher drawings on the credit facilities that were used to fund PHX Energy's capital spending. Rising variable interest rates on the Corporation's operating and syndicated facilities also contributed to the increase in finance expense in the 2023-period.

Finance expense lease liabilities relate to interest expenses incurred on lease liabilities. For the three-month period ended March 31, 2023, finance expense lease liabilities were consistent quarter-over-quarter at $0.6 million (2022 - $0.5 million).

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Net gain on disposition of drilling equipment	**9,956**	3,581
Foreign exchange gains (losses)	**24**	(13)
Other income	**9,980**	3,569

For the three-month periods ended March 31, 2023 and 2022, the Corporation recognized other income of $10 million and $3.6 million, respectively. In both periods, other income was mainly comprised of net gain on disposition of drilling equipment.

Net gain on disposition of drilling equipment is comprised of gains on disposition of drilling equipment and proceeds from insurance programs. 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. In the first quarter of 2023, as strong drilling activity levels held steady, more instances of downhole equipment losses occurred as compared to the corresponding 2022-period. In addition, there were more losses of high-valued equipment in the 2023-period which resulted in higher proceeds. The Corporation will use capital expenditure funds, including the proceeds from disposition of drilling equipment, to replace this equipment and these amounts will be added to the capital expenditures in 2023.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,	
	2023	2022
Provision for (Recovery of) income taxes	**3,541**	(217)
Effective tax rates (3)	**14%**	9%

For the three-month period ended March 31, 2023, the Corporation reported income tax provision of $3.5 million (2022 - $0.2 million recovery), of which, $2.7 million was current and mainly resulted from improved taxable income in the US. PHX Energy's effective tax rate of 14 percent is lower than the combined US federal and state corporate income tax rate of 21 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent, due to the recognition of previously unrecognized deferred tax assets that were applied against taxable income in Canada.

Segmented Information

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

(3) Supplementary financial 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 and Other Financial Measures section of this MD&A.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Directional drilling services	**116,365**	76,153	53
Motor rental	**8,612**	5,642	53
Sale of motor equipment and parts	**689**	-	n.m.
Total US revenue	**125,666**	81,795	54
Reportable segment profit before tax [i]	**15,923**	6,445	147

[i] Includes adjustments to intercompany transactions.
n.m. – not meaningful

For the three-month period ended March 31, 2023, total US revenue increased by 54 percent to $125.7 million as compared to $81.8 million in the 2022-quarter. Revenue in the first quarter of 2023 closely mirrored the record quarterly revenue generated in the fourth quarter of 2022. Excluding the impact of foreign exchange, the revenue generated by PHX Energy's US operations in the 2023-quarter was an all-time quarterly record.

In the first quarter of 2023, the Corporation's US drilling activity increased by 19 percent to 4,820 operating days compared to 4,046 days in the first quarter of 2022, however, activity was flat as compared to the 4,843 days in the last quarter of 2022. In comparison, the US industry horizontal and directional rig count in the first quarter of 2023 increased by 22 percent to 742 rigs per day from 609 rigs per day in the first quarter of 2022. The US industry horizontal and directional rig count was flat when compared to the last quarter of 2022 when there was an average of 752 active horizontal and directional rigs per day. (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, https://rigcount.bakerhughes.com/na-rig-count). Horizontal and directional drilling continued to represent the majority of rigs running on a daily basis during the first quarter 2023. During the 2023-quarter, Phoenix USA was active in the Permian, Scoop/Stack, Marcellus, Utica, Bakken, and Niobrara basins.

For the three-month period ended March 31, 2023, average revenue per day[3] for directional drilling services rose to $24,142 from $19,179 in the first quarter of 2022, a 26 percent increase. This increase was driven by high demand for the Corporation's premium technologies and increased capacity and utilization in the Corporation's RSS fleet. The strong US dollar in the 2023-period also supported the increase in average revenue per day. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services increased by 20 percent in the 2023-period compared to the same 2022-period.

[3] Supplementary financial 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 and Other Financial Measures section of this MD&A.

In addition, as demand for the Corporation's technology continues to grow, the Corporation has expanded its motor rental business, specifically related to its Atlas motor fleet. In the first quarter of 2023, US motor rental revenue was $8.6 million a 53 percent increase over the $5.6 million in the same 2022-quarter. In the 2023 three-month period, PHX Energy also started supplying motor equipment and parts to a certain customer and expects this new stream of revenue to continue to grow in future periods.

For the three-month period ended March 31, 2023, the US segment realized reportable segment income before tax of $15.9 million which is more than double the reportable segment profit before tax of $6.4 million in the corresponding 2022-period. The improved profitability quarter-over-quarter was mainly due to growth in activity levels and average revenue per day, and effective cost controls.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Directional drilling services	**38,602**	26,841	44
Motor rental	**629**	271	132
Total Canadian revenue	**39,231**	27,112	45
Reportable segment profit (loss) before tax [i]	**7,887**	3,494	126

[i] Includes adjustments to intercompany transactions.

In the three-month period of 2023, PHX Energy's Canadian operations generated its highest level of quarterly revenue since the fourth quarter of 2014. For the three-month period ended March 31, 2023, PHX Energy's Canadian division generated $39.2 million in revenue, an increase of 45 percent compared to $27.1 million in the 2022-quarter.

The Canadian division generated 3,051 operating days in the first quarter of 2023, a 19 percent increase from the 2,571 days in the fourth quarter of 2022 and a 12 percent increase from the 2,730 days in the first quarter of 2022. In comparison, industry horizontal and directional drilling activity, as measured by drilling days, increased to 17,911 days in the first quarter of 2023 from 16,813 days in the fourth quarter of 2022 and 16,412 days in the first quarter of 2022, an increase of 7 percent and 9 percent, respectively (Source: Daily Oil Bulletin, hz-dir days 230331). PHX Energy's Canadian operating segment remains a leader in this market being among the top three service providers. During the 2023-quarter, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, and Scallion basins.

In order to protect margins, throughout the 2022-year and into 2023, PHX Energy's Canadian division was able to increase pricing as a result of marketing efforts to deploy more premium technology and to offset increased costs from inflation. In the first quarter of 2023, average revenue per day[3] for directional drilling services increased by 27 percent to $12,654 from $9,931 in the corresponding 2022-quarter. The combination of increased activity levels and average revenue per day resulted in PHX Energy's Canadian division achieving higher levels of profitability in the 2023-quarter. For the three-month period ended March 31, 2023, the Corporation's Canadian division recognized reportable segment profit before tax of $7.9 million (2022 - $3.5 million).

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Revenue	**1,125**	397	183
Reportable segment profit (loss) before tax	**406**	(163)	n.m.

n.m. – not meaningful

The Corporation's international segment revenue is comprised of revenue from Albania. For the three-month period ended March 31, 2023, the international segment's revenue was $1.1 million (2022-quarter - $0.4 million). Albania operations were suspended in 2021 and resumed late in the first quarter of 2022 with one rig.

The international segment generated reportable segment profit before tax of $0.4 million in the 2023 three-month period compared to reportable segment loss before tax of $0.2 million in the 2022-period.

[3] Supplementary financial 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 and Other Financial Measures section of this MD&A.

Discontinued Operations – Russia

On June 30, 2022, the Corporation disposed of the Russian division operating under the entity, Phoenix TSR. Accordingly, for the comparative three-month period ended March 31, 2022, the Russian operations has been presented as discontinued operations.

The results of the divested Phoenix TSR operations are as follows:

(Stated in thousands of dollars)

	Three-month periods ended March 31, 2022
Revenue	$ 2,822,353
Expenses	2,735,850
	86,503
Impairment and other write-offs	1,966,848
Loss from discontinued operations	(1,880,345)
Income tax (recovery) from discontinued operations	27,418
Loss from discontinued operations, net of taxes	$ (1,907,763)

Summary of Quarterly Results – Continuing Operations

(Stated in thousands of dollars except per share amounts)

	Mar-23	Dec-22	Sep-22	Jun-22	Mar-22	Dec-21	Sept-21	Jun-21
Revenue	**166,022**	157,758	142,418	126,238	109,304	102,296	93,338	75,765
Earnings (loss)	**22,417**	20,333	13,475	12,818	(2,315)	9,330	4,206	4,447
Earnings (loss) per share – basic	**0.44**	0.40	0.27	0.25	(0.05)	0.19	0.09	0.08
Earnings (loss) per share – diluted	**0.42**	0.39	0.27	0.25	(0.05)	0.18	0.08	0.08
Dividends paid	**7,636**	5,078	3,797	3,791	2,482	2,505	1,260	1,260
Cash and cash equivalents	**15,502**	18,247	27,024	17,971	11,284	24,829	24,917	21,026
Loans and borrowings	**29,847**	22,731	24,000	20,108	3,749	-	-	-

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Cash flows from operating activities	**3,905**	(3,423)
Funds from operations(2)	**26,737**	2,882

	Mar. 31, '23	Dec. 31, '22
Working capital(2)	**105,717**	94,339
Net debt(2)	**14,345**	4,484

In the 2023 three-month period, cash flow from operating activities increased to $3.9 million compared to the $3.4 million cash used in operating activities in the corresponding 2022-period. For the three-month period ended March 31, 2023, funds from operations were $26.7 million as compared to $2.9 million in the comparable 2022-period. The change to positive cash flows from operating activities and significant increase in funds from operations are primarily attributable to higher levels of profitability realized in the 2023-period.

As at March 31, 2023, the Corporation had working capital of $105.7 million, an increase of $11.4 million from the $94.3 million reported at December 31, 2022. The increase in working capital at March 31, 2023 was primarily due to reduced levels of trade and other payables and accruals. Net debt as at March 31, 2023 was $14.3 million, an increase of $9.9 million from the $4.5 million reported at December 31, 2022. The increase in net debt was mainly due to drawings on the Corporation's credit facilities to fund capital spending in the 2023-period.

Cash Flow, Dividends, and ROCS

In December 2020, PHX Energy reinstated its quarterly dividend program. In November 2022, PHX Energy's Board approved a refinement of its shareholder return strategy in the form of a Return of Capital Strategy ("ROCS") which will potentially allow up to 70 percent of 2023 excess cash flow(2) to be used for shareholder returns. The Board will continually review the dividend program and its ROCS 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 operating activities, among other considerations, and if the Corporation

(2) Capital management 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 and Other Financial Measures section of this MD&A.

does not meet its budgeted cash flow from operating activities, dividends to shareholders may be reduced or suspended entirely.

On March 15, 2023, the Corporation declared a dividend of $0.15 per common share, which is double the dividend declared on March 15, 2022. An aggregate of $7.7 million was paid on April 17, 2023 to shareholders of record at the close of business on March 31, 2023.

Investing Activities

Net cash used in investing activities for the period ended March 31, 2023 was $5 million as compared to $9.4 million in the 2022-period. During the first quarter of 2023, the Corporation spent $10 million (2022 - $13 million) to grow the Corporation's fleet of drilling equipment and $8.6 million (2022 - $5.2 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment and replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $12.4 million (2022 - $5.3 million), the Corporation's net capital expenditures(2) for the 2023-quarter were $6.2 million (2022 - $12.9).

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Growth capital expenditures	**9,955**	12,968
Maintenance capital expenditures	**8,628**	5,238
Total capital expenditures	**18,583**	18,206
Deduct:		
Proceeds on disposition of drilling equipment	**(12,417)**	(5,296)
Net capital expenditures(2)	**6,166**	12,910

The 2023-period capital expenditures comprised of:

- $6.5 million in downhole performance drilling motors;
- $10.6 million in MWD systems and spare components and RSS; and
- $1.5 million in machinery and equipment and other assets.

(2) Capital management 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 and Other Financial Measures section of this MD&A.

The change in non-cash working capital balances of $1.1 million (source of cash) for the three-month period ended March 31, 2023, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $3.6 million (source of cash) for the three-month period ended March 31, 2022.

Financing Activities

For the three-month period ended March 31, 2023, net cash used in financing activities was $1.6 million as compared to $50 thousand generated from financing activities in the 2022-period. In the 2023-period:

- dividends of $7.6 million were paid to shareholders;
- 114,000 common shares were purchased by an independent trustee in the open market for $0.8 million and held in trust for the use of potential future settlements of restricted awards granted under the Corporation's RAP;
- payments of $0.8 million were made towards lease liabilities;
- 131,500 common shares were issued from treasury for proceeds of $0.3 million upon the exercise of share options; and
- $7.3 million net in drawings were taken against the Corporation's syndicated credit facility.

Capital Resources

As of March 31, 2023, the Corporation had CAD $30 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $15.5 million. As at March 31, 2023, the Corporation had CAD $35 million and USD $15 million available from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2025.

As at March 31, 2023, 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, proceeds on disposition of drilling equipment, debt and equity. In order to continue the advantageous strategy of placing advanced orders and continue to mitigate the supply chain issues expected to continue throughout 2023, the Board has approved a 2023 capital expenditure program of $61.5 million. Of the 2023 capital expenditures, $19.7 million is expected to be allocated to maintain capacity in the existing fleet of drilling and other equipment and replace equipment lost downhole during drilling operations, and $41.8 million is expected to be allocated to growth capital. The amount expected to be allocated towards replacing equipment lost downhole could increase should more downhole equipment losses occur throughout the year.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2023, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at March 31, 2023, the Corporation has commitments to purchase drilling and other equipment for $32.5 million. Delivery is expected to occur within 2023.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at March 31, 2023 and 2022.

Proposed Transactions

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

Critical Accounting Estimates and Judgments

The consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Corporation's significant accounting policies are described in its annual audited consolidated financial statements for the year ended December 31, 2022.

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, 2022.

Changes in Accounting Policies

The condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2022. The revenue policy has been updated as noted hereafter, due to the growth in the Corporation's other revenue streams during the period and the expectation that the growth in these revenue streams will continue in future periods .

a) Revenue

Revenue is recognized when a client obtains control of the goods or services. Revenue is measured based on the consideration specified in the contract with a client and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control over a product or service to a client. The Corporation's services are sold based upon bid acceptance or contracts with clients that includes fixed or determinable prices based upon daily, hourly, or job rates.

The Corporation primarily generates directional drilling services revenue whereby the client is charged a flat day rate for each day the rig requires directional drilling services. The day rate includes personnel assistance as well as use of equipment. The Corporation recognizes revenue daily based on the daily drilling rate. The Corporation's performance obligation is the bundling of its services relating to directional drilling activities, which distinctly benefit the client each day of active drilling. The Corporation recognizes this benefit to revenue daily, over a period of time, as services have been provided. An invoice is sent to the client upon completion of the well, also revenues are accrued based on daily services provided at period end.

Instances where there are equipment failures or delays, a sales credit will be issued upon review with the client. The Corporation will accrue a sales credit when it is highly probable, and the magnitude of the reversal is significant.

Motor rental revenue is based on the number of hours the motor was used in drilling operations, and the rate for that equipment. The Corporation's performance obligation is providing the use of equipment, which distinctly benefit the client during the rental period. The Corporation recognizes this benefit to revenue based on each hour of utilization. An invoice is sent to the client upon completion of the rental period, also revenues are accrued based on the number of hours the motor was used at period end.

The Corporation also sells various parts and motor equipment from inventory. The Corporation's performance obligation is satisfied upon delivery of such inventory to the Client, at which time the benefits of ownership and control of the asset has been transferred and revenue is recognized. An invoice is sent to the client upon shipment of goods.

Business Risk Factors

The business risk factors applicable to the Corporation have not materially changed since December 31, 2022. Refer to the "Business Risk Factors" section of the MD&A in PHX Energy's 2022 Annual Report as well as in the Corporation's most recent Annual Information Form under the heading "*Risk Factors*", filed on SEDAR at www.sedar.com.

Corporate Governance

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

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

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

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

There were no changes in the Corporation's ICFR that occurred during the period from January 1, 2023 to March 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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

Outstanding Corporation Share Data

(In thousands of shares)	**As at May 9, 2023**
Common shares outstanding, excluding shares held in trust	51,068,936
Common shares held in trust [i]	3,301
Total common shares outstanding	51,072,237
Dilutive securities:	
Options	1,218,334
Corporation shares – diluted	52,290,571

[i] Common Shares held in trust by an independent trustee for the potential future settlement of retention awards granted to eligible participant's under the Corporation's RAP

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) Adjusted EBITDA from Continuing Operations

Adjusted EBITDA from continuing operations, defined as earnings before finance expense, finance expense lease liability, income taxes, depreciation and amortization, impairment losses on drilling and other equipment and goodwill and other write-offs, equity-settled 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 from continuing operations provides supplemental information to earnings from continuing operations 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 from continuing operations should not be construed as an alternative measure to earnings from continuing operations determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA from continuing operations may differ from that of other organizations and, accordingly, its adjusted EBITDA from continuing operations may not be comparable to that of other companies.

The following is a reconciliation of earnings from continuing operations to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Earnings (loss) from continuing operations:	**22,417**	(2,315)
Add:		
Depreciation and amortization drilling and other equipment	**9,317**	7,277
Depreciation and amortization right-of-use asset	**407**	836
Provision for (Recovery of) income taxes	**3,541**	(217)
Finance expense	**667**	112
Finance expense lease liability	**576**	507
Equity-settled share-based payments	**101**	335
Unrealized foreign exchange loss	**(26)**	(91)
Adjusted EBITDA from continuing operations	**37,000**	6,444

b) Adjusted EBITDA from Continuing Operations Per Share - Diluted

Adjusted EBITDA from continuing 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 adjusted EBITDA from continuing operations per share - dilutive is based on the adjusted EBITDA from continuing operations as reported in the table above divided by the diluted number of shares outstanding at the period end.

c) Adjusted EBITDA from Continuing Operations as a Percentage of Revenue

Adjusted EBITDA as a percentage of revenue is calculated by dividing the adjusted EBITDA from continuing operations as reported in the table above by revenue as stated on the Condensed Consolidated Statements of Comprehensive Earnings.

d) Adjusted EBITDA from Continuing Operations Excluding Cash-settled Share-based Compensation Expense

Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense is calculated by adding cash-settled share-based compensation expense to adjusted EBITDA from continuing operations as described above.

The following is a reconciliation of earnings from continuing operations to adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Earnings (loss) from continuing operations:	**22,417**	(2,315)
Add:		
Depreciation and amortization drilling and other equipment	**9,317**	7,277
Depreciation and amortization right-of-use asset	**407**	836
Provision for (Recovery of) income taxes	**3,541**	(217)
Finance expense	**667**	112
Finance expense lease liability	**576**	507
Equity-settled share-based payments	**101**	335
Unrealized foreign exchange loss	**(26)**	(91)
Cash-settled share-based compensation expense	**1,374**	11,737
Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense	**38,374**	18,181

e) Adjusted EBITDA from Continuing Operations Excluding Cash-settled Share-based Compensation Expense as a Percentage of Revenue

Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense as a percentage of revenue is calculated by dividing adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense as reported above by revenue as stated on the Condensed Consolidated Statements of Comprehensive Earnings.

f) Gross Profit as a Percentage of Revenue Excluding Depreciation & Amortization

Gross profit as a percentage of revenue excluding depreciation & amortization is defined as the Corporation's gross profit excluding depreciation and amortization divided by revenue and is used to assess operational profitability. This Non-GAAP ratio does not have a standardized meaning and is not a financial measure recognized under GAAP. PHX Energy's method of calculating gross profit as a percentage of revenue may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of revenue, direct costs, depreciation and amortization, and gross profit to gross profit as a percentage of revenue excluding depreciation and amortization:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Revenue	**166,022**	109,304
Direct costs	**131,988**	91,917
Gross profit	**34,034**	17,387
Depreciation & amortization drilling and other equipment (included in direct costs)	**9,317**	7,277
Depreciation & amortization right-of-use asset (included in direct costs)	**407**	836
	43,758	25,500
Gross profit as a percentage of revenue excluding depreciation & amortization	**26%**	23%

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

SG&A costs excluding share-based compensation as a percentage of revenue is defined as the Corporation's SG&A costs excluding share-based compensation divided by revenue and is used to assess the impact of administrative costs excluding the effect of share price volatility. This Non-GAAP ratio does not have a standardized meaning and is not a financial measure recognized under GAAP. PHX Energy's method of calculating SG&A costs excluding share-based compensation as a percentage of revenue may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of SG&A costs, share-based compensation, and revenue to SG&A costs excluding share-based compensation as a percentage of revenue:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
SG&A Costs	**15,556**	22,113
Deduct:		
Share-based compensation (included in SG&A)	**1,475**	12,072
	14,081	10,041
Revenue	**166,022**	109,304
SG&A costs excluding share-based compensation as a percentage of revenue	**8%**	9%

Capital Management Measures

a) 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 financial 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,	
	2023	2022
Cash flows from operating activities	**3,905**	(3,423)
Add (deduct):		
Changes in non-cash working capital	**22,185**	6,459
Interest paid	**513**	51
Income taxes paid (received)	**134**	(205)
Funds from operations	**26,737**	2,882

b) Excess Cash Flow

Excess cash flow is defined as funds from operations (as defined above) less cash payment on leases, growth capital expenditures, and maintenance capital expenditures from downhole equipment losses and asset retirements, and increased by proceeds on disposition of drilling equipment. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses excess cash flow as an indication of the Corporation's ability to generate funds from its operations to support operations and grow 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 excess cash flow may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of cash flows from operating activities to excess cash flow:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Cash flows from operating activities	**3,905**	(3,423)
Add (deduct):		
Changes in non-cash working capital	**22,185**	6,459
Interest paid	**513**	51
Income taxes paid (received)	**134**	(205)
Cash payment on leases	**(1,339)**	(1,366)
	25,398	1,516
Proceeds on disposition of drilling equipment	**12,417**	5,296
Maintenance capital expenditures	**(8,628)**	(5,238)
Net proceeds	**3,789**	58
Growth capital expenditures	**(9,955)**	(12,968)
Excess cash flow	**19,232**	(11,394)

c) 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 financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses working capital to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating working capital may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	March 31, 2023	December 31, 2022
Current assets	**213,448**	210,227
Deduct:		
Current liabilities	**(107,731)**	(115,888)
Working capital	**105,717**	94,339

d) Net Debt

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

The following is a reconciliation of operating facility, loans and borrowings, and cash and cash equivalents to net debt:

(Stated in thousands of dollars)

	March 31, 2023	December 31, 2022
Loans and borrowings	**29,847**	22,731
Deduct:		
Cash and cash equivalents	**(15,502)**	(18,247)
Net debt	**14,345**	4,484

e) <u>Net Capital Expenditures</u>

Net capital expenditures is comprised of total additions to drilling and other long-term assets, as determined in accordance with IFRS, less total proceeds from disposition of drilling equipment, as determined in accordance with IFRS. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses net capital expenditures to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating net debt may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of additions to drilling and other equipment and proceeds from disposition of drilling equipment to net capital expenditures:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Growth capital expenditures	**9,955**	12,968
Maintenance capital expenditures	**8,628**	5,238
Total capital expenditures	**18,583**	18,206
Deduct:		
Proceeds on disposition of drilling equipment	**(12,417)**	(5,296)
Net capital expenditures	**6,166**	12,910

Supplementary Financial Measures

"Average consolidated revenue per day" is comprised of consolidated revenue, as determined in accordance with IFRS, divided by the Corporation's consolidated number of operating days. Operating days is defined under the "Definitions" section below.

"Average revenue per operating day" is comprised of revenue, as determined in accordance with IFRS, divided by the number of operating days.

"Dividends paid per share" is comprised of dividends paid, as determined in accordance with IFRS, divided by the number of shares outstanding at the dividend record date.

"Effective tax rate" is comprised of provision for or recovery of income tax, as determined in accordance with IFRS, divided by earnings from continuing operations before income taxes, as determined in accordance with IFRS.

"Funds from operations per share – diluted" is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of funds from operations per share - diluted is based on the funds from operations as reported in the table above divided by the diluted number of shares outstanding at period end.

Definitions

"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.

"Capital expenditures" equate to the Corporation's total acquisition of drilling and other equipment as stated on the Condensed Consolidated Statements of Cash Flows and Note 6(a) in the Notes to the Condensed Consolidated Financial Statements.

"Growth capital expenditures" are capital expenditures that were used to expand capacity in the Corporation's fleet of drilling equipment.

"Maintenance capital expenditures" are capital expenditures that were used to maintain capacity in the Corporation's fleet of drilling equipment and replace equipment that were lost downhole during drilling operations.

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 Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through its dividend program, the ROCS Program and NCIB;
- The approved capital expenditure budget for the 2023-year, excluding proceeds on disposition of drilling equipment, is $61.5 million. Of the total expenditures, $41.8 million is expected to be allocated to growth capital and the remaining $19.7 million is expected to be allocated towards maintenance of the existing fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations. The maintenance capital amount could

increase throughout the year should there be more downhole equipment losses than forecasted. These increases would likely be funded by proceeds on disposition of drilling equipment;

- As at March 31, 2023, the Corporation has capital commitments to purchase drilling and other equipment for $32.5 million, $16.7 million of which is growth capital and includes $15.7 million for performance drilling motors and $1 million for other equipment. Equipment on order as at March 31, 2023 is expected to be delivered within 2023;
- The 2023 planned capital expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary
- PHX Energy anticipates delivering a fleet of Atlas motors amounting to $3.8 million under the Atlas sales agreement it has entered with a Purchaser by the third quarter of 2023 and anticipates ongoing orders for parts to maintain their fleet throughout the remainder of the year. In addition, the Purchaser could potentially place subsequent orders for additional Atlas motors in the latter part of the year;
- The expectation that the Corporation will be able to expand its motor rentals and sales and that revenue will continue to grow in in future periods and that this will also enhance profitability;
- The anticipated industry activity and demand for the Corporation's services and high-performance technologies in North America; and
- The Corporation strategies to mitigate the impacts of shortages and inflation and cost controls will have the desired effects.

The above are stated under the headings: "Financial Results", "Dividends and ROCS", "Capital Spending", Sales and Licensed Use of Atlas Motors" "Supply Chain Disruption and Inflation", "Revenue", "Liquidity", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Outlook", "Critical Accounting Estimates and Judgements", and "Business Risk Factors" sections of this MD&A may contain 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, without limitation, that: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions and the accuracy of the Corporation's market outlook expectations for 2023 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation, anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the impact of pandemics and the Russian-Ukrainian war on the global economy, specifically trade, manufacturing, supply chain, inflation 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 including the potential for further interest rate hikes by global central banks and the impact on financing charges and foreign exchange and the anticipated global economic response to concerted interest rate hikes; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

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

Condensed Consolidated Statements of Financial Position

(unaudited)

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,501,672	$ 18,247,376
Trade and other receivables	127,407,506	125,836,273
Inventories	66,086,177	63,119,489
Prepaid expenses	4,452,425	3,024,166
Total current assets	213,447,780	210,227,304
Non-current assets:		
Drilling and other long-term assets (Note 6)	123,211,662	115,945,060
Right-of-use assets	29,466,771	29,336,163
Intangible assets	15,148,169	15,668,180
Investments	3,000,500	3,000,500
Other long-term assets	1,285,535	993,112
Deferred tax assets	53,869	53,869
Total non-current assets	172,166,506	164,996,884
Total assets	$ 385,614,286	$ 375,224,188
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	$ 93,391,118	$ 104,688,901
Dividends payable (Note 8d)	7,655,810	7,636,085
Lease liability	3,021,497	2,906,708
Current tax liabilities	3,662,388	656,499
Total current liabilities	107,730,813	115,888,193
Non-current liabilities:		
Lease liability	36,428,442	36,768,003
Loans and borrowings (Note 7)	29,846,733	22,731,389
Deferred tax liability	18,702,450	18,496,619
Other (Note 8c)	1,239,075	4,461,531
Total non-current liabilities	86,216,700	82,457,542
Equity:		
Share capital (Note 8a)	251,446,119	251,344,809
Contributed surplus	7,036,354	7,044,317
Deficit	(97,318,427)	(112,120,484)
Accumulated other comprehensive income	30,502,727	30,609,811
Total equity	191,666,773	176,878,453
Total liabilities and equity	$ 385,614,286	$ 375,224,188

See accompanying notes to unaudited condensed consolidated interim financial statements.

Commitments (Note 6b)

Approved by the Board of Directors

(Signed) John Hooks

John Hooks – Chair of the Board

(Signed) Terry Freeman

Terry Freeman – Chair of the Audit Committee

Condensed Consolidated Statements of Comprehensive Earnings

(unaudited)

		(Re-presented – Note 11)
	Three-month periods ended March 31,	
	2023	2022
Revenue (Note 4)	**$ 166,022,119**	$ 109,304,059
Direct costs	**131,988,199**	91,917,448
Gross profit	**34,033,920**	17,386,611
Expenses:		
Selling, general and administrative expenses	**15,556,126**	22,113,255
Research and development expenses	**1,256,419**	756,559
Finance expense	**666,840**	111,796
Finance expense lease liability	**576,386**	507,016
Other income (Note 9)	**(9,979,849)**	(3,569,390)
	8,075,922	19,919,236
Earnings (loss) from continuing operations before income taxes	**25,957,998**	(2,532,625)
Provision for (recovery of) income taxes		
Current	**2,723,641**	(215,497)
Deferred	**816,909**	(1,946)
	3,540,550	(217,443)
Earnings (loss) from continuing operations	**22,417,448**	(2,315,182)
Discontinued operations		
Net loss from discontinued operations, net of taxes (Note 11)	**-**	(1,907,763)
Net earnings (loss)	**22,417,448**	(4,222,945)
Other comprehensive income		
Foreign currency translation	**(107,084)**	(2,319,470)
Total comprehensive earnings (loss) for the period	**$ 22,310,364**	$ (6,542,415)
Earnings (loss) per share – basic		
Continuing operations	**$ 0.44**	$ (0.05)
Discontinued operations	**$ -**	$ (0.04)
Net earnings (loss)	**$ 0.44**	$ (0.09)
Earnings (loss) per share – diluted		
Continuing operations	**$ 0.42**	$ (0.05)
Discontinued operations	**$ -**	$ (0.04)
Net earnings (loss)	**$ 0.42**	$ (0.09)

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

Three-month period ended March 31, 2023	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2022	**50,896,175**	**$ 251,344,809**	**$ 7,044,317**	**$ 30,609,811**	**$ (112,120,484)**	**$ 176,878,453**
Issuance of share capital on exercise of options	**131,500**	**266,485**	**-**	**-**	**-**	**266,485**
Issuance of share capital from trust on settlement of retention awards	**68,169**	**534,353**	**-**	**-**	**-**	**534,353**
Common shares purchased and held in trust	**(114,000)**	**(808,293)**	**-**	**-**	**-**	**(808,293)**
Share-based payments	**-**	**-**	**100,802**	**-**	**-**	**100,802**
Fair value of options exercised	**-**	**108,765**	**(108,765)**	**-**	**-**	**-**
Net earnings	**-**	**-**	**-**	**-**	**22,417,448**	**22,417,448**
Foreign currency translation, net of tax	**-**	**-**	**-**	**(107,084)**	**-**	**(107,084)**
Dividends	**-**	**-**	**-**	**-**	**(7,615,391)**	**(7,615,391)**
Balance, March 31, 2023	**50,981,844**	**$ 251,446,119**	**$ 7,036,354**	**$ 30,502,727**	**$ (97,318,427)**	**$ 191,666,773**

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

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

				(Re-presented – Note 11)
	Three-month periods ended March 31,			
		2023		2022
Cash flows from operating activities:				
Earnings (loss) from continuing operations	**$**	**22,417,448**	$	(2,315,182)
Adjustments for:				
Depreciation and amortization		**9,317,356**		7,276,520
Depreciation and amortization right-of-use asset		**407,439**		836,046
Provision for income taxes		**3,540,550**		(217,443)
Unrealized foreign exchange gain		**(26,311)**		(90,526)
Net gain on disposition of drilling equipment (Note 9)		**(9,956,165)**		(3,581,750)
Equity-settled share-based payments		**100,802**		334,714
Finance expense		**666,840**		111,796
Finance expense lease liability		**576,386**		507,016
Provision for inventory obsolescence		**269,396**		527,017
Interest paid on lease liability		**(576,386)**		(507,016)
Interest paid		**(512,604)**		(50,923)
Income taxes received (paid)		**(134,162)**		205,356
Change in non-cash working capital		**(22,185,377)**		(6,458,571)
Continuing operations		**3,905,212**		(3,422,946)
Discontinued operations (Note 11)		**-**		(734,526)
Net cash from (used in) operating activities		**3,905,212**		(4,157,472)
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment		**12,417,452**		5,296,416
Acquisition of drilling and other equipment		**(18,582,920)**		(18,206,230)
Acquisition of intangible assets		**-**		(411,275)
Change in non-cash working capital		**1,141,297**		3,635,013
Continuing operations		**(5,024,171)**		(9,686,076)
Discontinued operations (Note 11)		**-**		248,324
Net cash used in investing activities		**(5,024,171)**		(9,437,752)
Cash flows from financing activities:				
Proceeds from loans and borrowings		**7,325,527**		3,748,800
Proceeds from exercise of options		**266,485**		1,642,187
Dividends paid to shareholders		**(7,636,086)**		(2,482,060)
Purchase of shares held in trust		**(808,293)**		(2,000,000)
Payments of Lease Liability		**(762,226)**		(858,988)
Continuing operations		**(1,614,593)**		49,939
Discontinued operations		**-**		-
Net cash from (used in) financing activities		**(1,614,593)**		49,939
Net decrease in cash and cash equivalents		**(2,733,552)**		(13,545,285)
Cash and cash equivalents, beginning of period		**18,247,376**		24,828,830
Effect of movements in exchange rates on cash held		**(12,152)**		-
Cash and cash equivalents, end of period	**$**	**15,501,672**	$	11,283,545

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, 2023 and 2022

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 1600, 215 – 9th Avenue 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, Albania, and the Middle East regions. The Middle East region operates through an arrangement with National Energy Services Reunited Corp. The Corporation also develops and manufactures technologies that are made available for internal operational use.

The condensed consolidated interim financial statements include the accounts of the Corporation and its wholly owned subsidiaries. Certain comparative figures of the condensed consolidated interim financial statements for the three-month period ended March 31, 2022 have been re-presented to present operations of Phoenix TSR LLC (“Phoenix TSR”) as a discontinued operation (see Note 11).

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, 2022.

These condensed consolidated interim financial statements were authorized by the Board of Directors on May 9, 2023.

b) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on a going concern basis using the historical cost basis except for liabilities for cash-settled share-based payment arrangements and investments, which are measured at fair value. Liabilities for cash-settled share-based payment arrangements are included in trade and other payables and other non-current liabilities 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, 2022.

e) Future Accounting Pronouncements

i) Standards and Interpretations not yet Applied

A number of new standards, amendments to standards and interpretations of standards have been issued by the IASB and the International Financial Reporting Interpretations Committee, the application of which are effective for periods beginning on or after January 1, 2024. The Corporation does not expect the implementation of these new accounting pronouncements to have a material impact on its accounting policies.

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, 2022. The revenue policy has been updated, as noted hereafter, due to the growth in the Corporation's other revenue streams during the period and the expectation that the growth in these revenue streams will continue in future periods (see Note 12).

a) Revenue

Revenue is recognized when a client obtains control of the goods or services. Revenue is measured based on the consideration specified in the contract with a client and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control over a product or service to a client. The Corporation's services are sold based upon bid acceptance or contracts with clients that includes fixed or determinable prices based upon daily, hourly, or job rates.

The Corporation primarily generates directional drilling services revenue whereby the client is charged a flat day rate for each day the rig requires directional drilling services. The day rate includes personnel assistance as well as use of equipment. The Corporation recognizes revenue daily based on the daily drilling rate. The Corporation's performance obligation is the bundling of its services relating to directional drilling activities, which distinctly benefit the client each day of active drilling. The Corporation recognizes this benefit to revenue daily, over a period of time, as services have been provided. An invoice is sent to the client upon completion of the well, also revenues are accrued based on daily services provided at period end.

Instances where there are equipment failures or delays, a sales credit will be issued upon review with the client. The Corporation will accrue a sales credit when it is highly probable, and the magnitude of the reversal is significant.

Motor rental revenue is based on the number of hours the motor was used in drilling operations, and the rate for that equipment. The Corporation's performance obligation is providing the use of equipment, which distinctly benefit the client during the rental period. The Corporation recognizes this benefit to revenue based on each hour of utilization. An invoice is sent to the client upon completion of the rental period, also revenue is accrued based on the number of hours the motor was used at period end.

The Corporation also sells various motor parts and motor equipment from inventory. The Corporation's performance obligation is satisfied upon delivery of such inventory to the Client, at which time the benefits of ownership and control of the asset has been transferred and revenue is recognized. An invoice is sent to the client upon shipment of goods.

4. Revenue

The Corporation generates revenue primarily from providing directional drilling services to customers. Other sources of revenue include rental of performance drilling motors and sale of motor equipment and parts.

(Stated in thousands of dollars)	Canada		United States		International		Total	
Three-month periods ended March 31,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Directional drilling services	**38,602**	26,841	**116,365**	76,153	**1,125**	397	**156,092**	103,391
Motor rental	**629**	271	**8,612**	5,642	**-**	-	**9,241**	5,913
Sale of motor equipment and parts	**-**	-	**689**	-	**-**	-	**689**	-
Total revenue	**39,231**	27,112	**125,666**	81,795	**1,125**	397	**166,022**	109,304

5. Operating Segments

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

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Three-month periods ended March 31,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total revenue	**39,231**	27,112	**125,666**	81,795	**1,125**	397	**166,022**	109,304
Reportable segment profit (loss) before income taxes	**7,887**	3,494	**15,923**	6,445	**406**	(163)	**24,216**	9,776

(Stated in thousands of dollars)

	Canada		United States(1)		International		Total	
As at March 31,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Drilling and other equipment	**29,824**	17,350	**92,916**	66,403	**472**	646	**123,212**	84,399

(1) March 31, 2023 includes USD $1.6 million of drilling and other equipment physically located in the Middle East region (2022 – USD $1 million).

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Reportable segment income before income taxes	**24,216**	9,776
Corporate:		
Selling, general and administrative expenses	**5,739**	14,502
Research and development expenses	**1,256**	757
Finance expense	**667**	112
Finance expense lease liability	**576**	507
Other income	**(9,980)**	(3,569)
Earnings from continuing operations before income taxes	**25,958**	(2,533)

6. Drilling and Other Long Term Assets

a) Acquisitions and Disposals

During the three-month period ended March 31, 2023, the Corporation acquired assets with a cost of $18.6 million (2022 - $18.2 million).

Assets with a carrying amount of $2.5 million (2022 - $1.7 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $10 million (2022 - $3.6 million), which is included in other income (see Note 9) in the condensed consolidated statement of comprehensive income.

b) Capital Commitments

As at March 31, 2023, the Corporation has commitments to purchase drilling and other equipment for $32.5 million with delivery expected to occur throughout the rest of the 2023-year.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at March 31, 2023**	Currency	Carrying Amount at December 31, 2022
Operating facility	CAD	15,000	December 12, 2025	CAD	**557**	CAD	731
Syndicated facility	CAD	50,000	December 12, 2025	CAD	**29,290**	CAD	22,000
Total CAD facility		65,000			**29,847**		22,731
US Operating facility	USD	15,000	December 12, 2025	USD	**-**	USD	-

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at March 31, 2023 the Corporation was in compliance with all of its financial covenants as follows:

Ratio	Covenant	**March 31, 2023**
Debt to covenant EBITDA	< 3.0x	**0.26**
Interest coverage ratio	> 3.0x	**60.20**

The facilities bear interest based primarily on the Corporation's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined in the credit agreement. Interest on the operating facility is at the bank's prime rate plus 0.5 percent. Interest on the syndicated facility is at the Secured Overnight Financing Rate ("SOFR") plus 1.5 percent.

On August 24, 2022, the Corporation extended the maturity date of the syndicated loan agreement to December 12, 2025. As at March 31, 2023 the Corporation has approximately CAD $35 million and USD $15 million available to be drawn from its credit facilities. 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, 2022	47,978,662	$	235,463,414
Common shares repurchased and held in trust	(626,400)		(4,110,000)
Issued shares pursuant to retention awards plan	2,277,875		14,618,748
Issued shares pursuant to share option plan	1,266,038		5,372,647
Balance as at December 31, 2022	50,896,175	$	251,344,809
Common shares repurchased and held in trust	**(114,000)**		**(808,293)**
Issued shares pursuant to retention awards plan	**68,169**		**534,353**
Issued shares pursuant to share option plan	**131,500**		**375,250**
Balance as at March 31, 2023	**50,981,844**	**$**	**251,446,119**

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 2023

Number		Exercise Price	Expiration Date		Fair Value
150,000	$	7.96	March 9, 2028	$	1.99
100,000		7.83	March 9, 2028		2.02
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 2023 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 54 percent, forfeiture rate of nil, dividend yield of 7.87 percent and a risk-free interest rate of 4.03 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.

Total compensation expense related to stock options recognized for the three-month period ended March 31, 2023 was $0.1 million (2022 - $0.3 million).

A summary of the status of the plan as at March 31, 2023 is presented below:

	March 31, 2023		December 31, 2022	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**1,133,334**	**$ 3.31**	2,854,200	$ 3.15
Granted	**250,000**	**7.91**	250,000	6.11
Exercised	**(131,500)**	**2.03**	(1,970,866)	3.44
Forfeited / cancelled	**-**	**-**	-	-
Outstanding, end of period	**1,251,834**	**4.37**	1,133,334	3.31
Options exercisable, end of period	**668,494**	**3.02**	799,994	2.86

The weighted average share price at the date of exercise for share options exercised for the three-month period ended March 31, 2023 was $7.60 (2022 - $6.09).

The range of exercise prices for options outstanding at March 31, 2023 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
100,000	0.94 yrs	2.81	100,000	2.81
50,000	0.94 yrs	2.83	50,000	2.83
118,500	1.93 yrs	2.19	118,500	2.19
50,000	1.93 yrs	2.09	50,000	2.09
300,000	2.93 yrs	2.74	199,998	2.74
133,334	2.93 yrs	2.64	66,666	2.64
150,000	3.93 yrs	6.08	49,998	6.08
100,000	3.93 yrs	6.16	33,332	6.16
150,000	4.94 yrs	7.96	-	7.96
100,000	4.94 yrs	7.83	-	7.83
1,251,834	3.16 yrs	$ 4.37	668,494	$ 3.02

c) Retention Award Plan

The retention award plan has two types of awards: Restricted Awards (“RAs”) and Performance Awards (“PAs”) and results in eligible participants, as approved by the Board, receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Effective February 28, 2023, the Board approved an amendment to the RAP whereby if the Corporation elects to settle awards in common shares, the additional multiplier will no longer be applied. This amended plan applies to grants after February 28, 2023. Common shares acquired by an independent trustee in the open market are held in trust for the potential settlement of RA and PA award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlements. For the three-month period ended March 31, 2023, the independent trustee purchased 114,000 common shares (2022 – 314,600) for a total cost of $0.8 million (2022 - $2 million) and released 68,169 common shares (2022 – 1,803,617) to settle retention award obligations of $0.5 million (2022 - $11.4 million). As at March 31, 2023, the Corporation held 56,895 common shares in trust (2022 – 173,520). The Corporation continues to account for its retention award plan as cash-settled share-based compensation.

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

PAs vesting and subsequent exercise is similar to RAs, except a payout multiplier is applied to the final payout. The payout multiplier is linked solely to total shareholder return on the Corporation’s common shares relative to returns on securities of members of the Corporation’s peer comparison group over the applicable vesting period and can range from a payout of zero percent to 200 percent. For the three-month period ended March 31, 2023, 268,825 PAs were granted (2022 – 750,000 granted, of which 375,000 were subsequently forfeited), 1,159,523 PAs settled at a weighted average payout multiplier of 185 percent (2022 – 774,152), no PAs were forfeited (2022 - nil). As at March 31, 2023, 808,217 PAs were outstanding (2022 – 1,521,696).

The Corporation recorded a total of $1.4 million compensation expense relating to these plans for the three-month period ended March 31, 2023 (2022 – $11.7 million). The expense is included in selling, general and administrative expense and has a corresponding liability of $4.7 million in trade and other payables for the current portion and $1.2 million included in other liabilities for the long-term portion. There were 2,083,553 RAs and PAs outstanding as at March 31, 2023 (2022 – 3,505,340).

A summary of the status of the plan as at March 31, 2023 is presented below:

	March 31, 2023	December 31, 2022
RAs and PAs outstanding, beginning of period	**2,845,191**	3,267,579
Granted	**735,625**	1,613,555
Settled	**(1,497,263)**	(1,644,012)
Forfeited / cancelled	**-**	(391,931)
RAs and PAs outstanding, end of period	**2,083,553**	2,845,191

d) Dividends

On March 15, 2023, the Corporation declared a dividend of $0.15 per share or $7.7 million payable on April 17, 2023.

e) Normal Course Issuer Bid

During the third quarter of 2022, 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 3,622,967 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 3, 2022. The NCIB commenced on August 16, 2022 and will terminate on August 15, 2023. 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.

For the three-month period ended March 31, 2023, the Corporation did not repurchase shares through its current NCIB. The Corporation did not repurchase shares through its previous NCIB in the 2022 period.

9. Other Income

	Three-month periods ended March 31,	
(Stated in thousands of dollars)	**2023**	2022
Net gain on disposition of drilling equipment	**9,956**	3,582
Foreign exchange gains (losses)	**24**	(13)
Other income	**9,980**	3,569

10. Fair Values of Financial Instruments

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

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

11. Discontinued Operations

On June 30, 2022, the Corporation completed the sale of its Russian division. The transaction involved the sale of all shares of Phoenix TSR, a legally wholly-owned subsidiary of PHX Energy that held the entire Russian drilling operations. The operations were previously classified under the Russia operating segment for reporting purposes. A loss on disposition of $3.5 million was recognized on the date the sale was completed.

The results of the divested Phoenix TSR operations are as follows:

	Three-month periods ended March 31, 2022
Revenue	$ 2,822,353
Expenses	2,735,850
	86,503
Impairment and other write-offs	1,966,848
Loss from discontinued operations	(1,880,345)
Income tax from discontinued operations	27,418
Loss from discontinued operations, net of taxes	$ (1,907,763)

Included in the Corporation's other comprehensive income for the three-month period ended March 31, 2022 is $0.8 million of foreign currency translations loss relating to Russia's operations.

Reconciliation of net loss from discontinued operations, net of taxes to cash used in discontinued operations is as follows:

	Three-month periods ended March 31, 2022
Net loss from discontinued operations, net of taxes	$ (1,907,763)
Addback (deduct):	
Depreciation and amortization	136,024
Provision for income taxes	27,418
Unrealized foreign exchange (gain) loss	27,318
Interest and taxes received (paid), net	(1,312)
Gain on disposition of drilling equipment	(248,324)
Finance expense	1,312
Impairment and other write-offs	1,966,848
Change in non-cash working capital	(736,047)
Cash used in operating activities	$ (734,526)

Cash from investing activities of discontinued operations are due to proceeds from disposition.

12. Subsequent Events

On May 3, 2023, PHX Energy entered into a sales agreement for the sale and licensed use of its Atlas High Performance Drilling Motors. PHX Energy will be providing a fleet of Atlas motors to a purchaser in the US market (referred to as the "Purchaser"). Under the agreement, the Purchaser must exclusively use components manufactured by the Corporation for the maintenance of their fleet of Atlas Motors. PHX Energy anticipates delivering a fleet of Atlas motors amounting to $3.8 million to the Purchaser by the third quarter of 2023 and anticipates ongoing orders for parts to maintain their fleet throughout the remainder of the year. In addition, the Purchaser could potentially place subsequent orders for additional Atlas motors in the latter part of the year.

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Karen David-Green

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta