2023

Second Quarter Report

PHX
ENERGY SERVICES CORP.

Management's Discussion and Analysis

Second Quarter Report for the three and six-month periods ended June 30, 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 second 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 second 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 August 8, 2023.

PHX Energy's Interim Financial Report for the three and six-month periods ended June 30, 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 August 8, 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.

Second Quarter Highlights

- For the three-month period ended June 30, 2023, PHX Energy generated consolidated revenue of $155.6 million, the highest level of second quarter revenue on record and the third highest level of quarterly revenue in the Corporation's history despite the second quarter being typically slow in Canada due to spring break-up. Revenue in the first quarter of 2023 and fourth quarter of 2022 are the first and second highest quarterly revenue on record, respectively.

- Earnings from continuing operations increased to $18.1 million, an increase of 41 percent over the second quarter of 2022, and adjusted EBITDA(1) from continuing operations increased to $34.8 million, which represented 22 percent of consolidated revenue(1). Earnings and adjusted EBITDA from continuing operations are the best second quarter results on record. Additionally, adjusted EBITDA is the Corporation's second highest quarterly level in its history. Included in the 2023-quarter's adjusted EBITDA is $2.6 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations(1) in the second quarter of 2023 was $37.4 million, 24 percent of consolidated revenue(1).

- PHX Energy's US division revenue in the second quarter of 2023 was $125 million, 19 percent higher than the second quarter of 2022 and just slightly below the records achieved in the previous two quarters. US division revenue in the 2023-quarter represented 80 percent of consolidated revenue.

(1) Non-GAAP financial measure or ratio 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.

- PHX Energy's Canadian division reported $29.4 million of quarterly revenue, its highest level of second quarter revenue on record.
- The US dollar 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 1.34 compared to 1.28 in the 2022-period. Albeit, the US dollar has weakened compared to the first quarter of 2023.
- The Corporation generated excess cash flow [(2)] of $25.5 million in the 2023 three-month period, after deducting for maintenance capital expenditures from asset retirements, maintenance capital expenditures from downhole equipment losses, and growth capital expenditures of $3.9 million, $3.3 million, and $4.9 million, respectively.
- In the 2023-quarter, PHX Energy paid $7.7 million in dividends which is double the dividend amount paid in the same 2022-quarter. On June 15, 2023, the Corporation declared a dividend of $0.15 per share[(3)] or $7.6 million, paid on July 17, 2023 to shareholders of record on June 30, 2023.
- PHX Energy delivered additional returns to shareholders, through the use of its current NCIB, purchasing and cancelling 267,800 common shares for $1.6 million in the second quarter of 2023. Subsequent to June 30, 2023, the Corporation purchased and cancelled 1,242,000 common shares for $8.1 million.
- As at June 30, 2023, the Corporation had working capital[(2)] of $111 million and net debt[(2)] of $7.6 million with credit facility capacity in excess of $52 million.

[(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.
[(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.

Financial Highlights

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

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Operating Results – Continuing Operations	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**155,618**	126,238	23	**321,641**	235,568	37
Earnings	**18,108**	12,818	41	**40,526**	10,504	286
Earnings per share – diluted	**0.35**	0.25	40	**0.77**	0.21	267
Adjusted EBITDA (1)	**34,802**	25,084	39	**71,804**	31,528	128
Adjusted EBITDA per share – diluted (1)	**0.66**	0.49	35	**1.35**	0.63	114
Adjusted EBITDA as a percentage of revenue (1)	**22%**	20%		**22%**	13%	
Cash Flow – Continuing Operations						
Cash flows from (used in) operating activities	**22,633**	11,449	98	**26,341**	7,740	240
Funds from operations (2)	**30,248**	21,821	39	**56,985**	24,703	131
Funds from operations per share – diluted (3)	**0.57**	0.43	33	**1.07**	0.49	118
Dividends paid per share (3)	**0.15**	0.075	100	**0.30**	0.125	140
Dividends paid	**7,656**	3,791	102	**15,292**	6,273	144
Capital expenditures	**12,072**	15,214	(21)	**30,654**	33,420	(8)
Excess cash flow (2)	**25,508**	9,116	180	**44,743**	(2,277)	n.m.
Financial Position				**Jun 30 '23**	Dec 31 '22	
Working capital (2)				**110,963**	94,339	18
Net debt (2)				**7,605**	4,484	70
Shareholders' equity				**196,750**	176,878	11
Common shares outstanding				**50,801,138**	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 second quarter we continued to produce strong financial and operating results despite a softening market. These results are testament to our talented team and leading-edge technology that allow us to deliver the superior operational performance that Operators demand.

- We remain cautiously optimistic for the second half of 2023. We expect the softening US rig count to stabilize with the recent strengthening of oil commodity prices and tightening supply. Additionally, we anticipate the Canadian industry activity will continue to trend above the levels seen in the prior year.
- In the US we may continue to see lighter activity than 2022 and expect levels to remain relatively consistent with those seen in the second quarter. We anticipate that the premiums generated from our technology offering, particularly RSS, will continue to offset the subtle decline in activity. Additionally, we believe our motor rental and sales division will continue to see growth in the remainder of the year and these streams will also contribute to improved revenue and margins year-over-year.
- In Canada we expect our activity to continue to show an improvement over 2022 and revenues to track accordingly. The second quarter was a record spring break up period for our Canadian division and currently this division is very active.

- We believe the delivery of the additional equipment on order will be adequate to meet the volume of forecasted activity for the remainder of 2023. We will assess future capital requirements in the upcoming months for anticipated growth in 2024 and will likely place early orders for certain materials and items that still have long lead times for delivery.
- In line with our strategy to expand our Atlas sales business, we recently entered into an Atlas sales agreement with an existing international client. We have already seen an upside in the second quarter from this new business line and will continue to pursue opportunities for expansion.
- We continue to leverage our business strengths to reward our shareholders through the various mechanism of ROCS, including our base dividend program, share buy backs and the ability to trigger special dividends with excess cash. We have bought back 19% of our shares since 2017, including the purchase and cancellation of 1.5 million shares through the current NCIB thus far in 2023. Through our dividend program we have paid $36.7 million to shareholders since reinstating the program in December 2020.

Through the remainder of the year, we will continue to provide attractive shareholder returns while maintaining our balance sheet strength and funding operational growth by investing in new technology development and capital expenditures.

Michael Buker, President
August 8, 2023

Financial Results

In the second quarter of 2023, market uncertainties continued. North American drilling activity was flat compared to the same quarter in 2022 and has declined from the first quarter of 2023. Despite these market trends, PHX Energy's consolidated revenue grew by 23 percent to $155.6 million (2022 - $126.2 million), the highest second quarter revenue on record.

For the three-month period ended June 30, 2023, in line with North American industry activity, PHX Energy's consolidated activity levels were relatively flat at 6,526 operating days compared to 6,486 operating days in the 2022-period. The Corporation continued to leverage its premium technologies and strength in marketing and operations, and as a result, improved its average consolidated revenue per day(3) for directional drilling services by 15 percent quarter-over-quarter.

In the 2023 three-month period, PHX Energy's US division revenue grew by 19 percent to $125 million as compared to $105.4 million in the same 2022-period. Compared to the record in the first quarter of 2023, the US division's revenue was relatively flat despite the decline in the rig count in the 2023-quarter. US operating days decreased by 7 percent from 4,707 in the second quarter of 2022 to 4,364 in the second quarter of 2023 while US average revenue per day(3) for directional drilling services improved by 18 percent quarter-over-quarter. Revenue from the Corporation's US segment represented 80 percent of consolidated revenue in the 2023 three-month period (2022 – 83 percent).

Similar to the US division, the momentum of the strong first quarter results in Canada continued in the second quarter of 2023, and the Corporation's Canadian division generated revenue of $29.4 million, a 49 percent increase from $19.7 million in the same 2022-quarter. Following the record revenue in the first quarter, this is the highest level of second quarter Canadian division revenue on record. In the 2023 three-month period, Canadian industry activity held steady compared to the same 2022-period while the Corporation's Canadian operating days grew by 23 percent to 2,076 days from the 1,688 operating days in the comparable 2022-period. Average revenue per day realized by the Canadian segment also improved by 19 percent quarter-over-quarter.

Earnings from continuing operations and adjusted EBITDA generated in the 2023-quarter are the best second quarter results in the Corporation's history. For the three-month period ended June 30, 2023, earnings from continuing operations increased to $18.1 million from $12.8 million in the comparable 2022-period, an increase of 41 percent. Adjusted EBITDA from continuing operations(1) increased to $34.8 million (22 percent of revenue) which is 39 percent higher than the adjusted EBITDA reported in the same 2022-period of $25.1 million (20 percent of revenue). Included in the 2023 three-month period adjusted EBITDA

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from continuing operations is cash-settled share-based compensation expense of $2.6 million (2022 - $0.7 million). For the three-month period ended June 30, 2023, excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations(1) is $37.4 million, 24 percent of consolidated revenue (2022 - $25.8 million).

PHX Energy maintained its strong financial position and had working capital(2) of $111 million and net debt(2) of $7.6 million with available credit facilities in excess of $52 million as at June 30, 2023.

Dividends and ROCS

On June 15, 2023, the Corporation declared a dividend of $0.15 per share payable to shareholders of record at the close of business on June 30, 2023. An aggregate of $7.6 million was paid on July 17, 2023. This is double the dividend declared in the 2022-quarter.

The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") that includes multiple options including the dividend program and the Normal Course Issuer Bid ("NCIB").

Normal Course Issuer Bid

Pursuant to PHX Energy's current NCIB it is entitled 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 at the time of its approval by the TSX. The NCIB commenced on August 16, 2022, and will terminate on August 15, 2023. Pursuant to the current NCIB, 267,800 common shares were purchased by the Corporation for $1.6 million and cancelled in the second quarter of 2023. Subsequent to June 30, 2023, the Corporation purchased and cancelled 1,242,000 common shares for $8.1 million. Pursuant to the Corporation's current NCIB, the Corporation purchased in the open market through the facilities of the TSX and through other alternative Canadian trading platforms and cancelled an aggregate of 1,509,800 common shares of the Corporation at an average price paid of $6.39 per common share. For the three-month period ended June 30, 2022, the Corporation did not repurchase shares through its previous NCIB.

The Corporation has made an application to the TSX for renewal of its NCIB for a further one-year term. The anticipated renewal of the NCIB is subject to the review and approval of the TSX.

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Capital Spending

In the second quarter of 2023, the Corporation spent $12.1 million in capital expenditures, of which $4.9 million was spent on growing the Corporation's fleet of drilling equipment, $3.9 million was spent to replace retired assets, and $3.3 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $8.6 million, the Corporation's net capital expenditures(2) for the 2023-quarter were $3.5 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.

(Stated in thousands of dollars)

	Three-month period ended June 30, 2023	Six-month period ended June 30, 2023
Growth capital expenditures	**4,931**	**14,885**
Maintenance capital expenditures from asset retirements	**3,860**	**8,718**
Maintenance capital expenditures from downhole equipment losses	**3,281**	**7,051**
	12,072	**30,654**
Deduct:		
Proceeds on disposition of drilling equipment	**(8,589)**	**(21,007)**
Net capital expenditures(2)	**3,483**	**9,647**

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, $38.5 million is expected to be allocated to growth capital and the remaining $23 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 June 30, 2023, the Corporation has capital commitments to purchase drilling and other equipment for $28.4 million, $21.5 million of which is growth capital and includes $20.7 million for performance drilling motors and $0.8 million for other equipment. Equipment on order as at June 30, 2023 is expected to be delivered within 2023.

The Corporation currently possesses approximately 680 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, 113 Velocity systems, and 51 PowerDrive Orbit RSS, the largest independent fleet in North America.

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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 remainder of the year. In addition, the Purchaser could potentially place subsequent orders for additional Atlas motors in the latter part of the year. In the 2023 three-month period, $3.2 million of motors and parts were sold as part of this agreement.
On July 27, 2023, PHX Energy agreed upon the sale and licensed use of its Atlas High Performance Drilling Motors to an existing international client. PHX Energy will be providing a fleet of Atlas motors and parts amounting to approximately $5 million with delivery anticipated to be completed by the end of 2023.

Supply Chain and Inventory

Inflation and shortages related to the products and services required within the energy sector, including those within the Corporation's supply chain, continued in the second quarter 2023 although it had less of an impact. Due to these shortages, lead times remain extended and turn-around times for servicing the Corporation's premium technologies remain longer than usual. 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. These supply chain strategies continue to result in higher inventory levels, which have increased by 8 percent from $63.1 million at the end of 2022 to $68.4 million at June 30, 2023. Higher inventory levels were also partly due to lower than forecasted activity in the 2023-quarter. The Corporation 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 June 30, 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, 53,594 common shares were released from the independent trustee in the 2023-quarter to settle $0.4 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 June 30, 2023, the trustee did not repurchase common shares. As at June 30, 2023, 3,301 common shares were held in trust for purposes of the RAP.

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 and technologies 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.

In July 2023, Phoenix USA appointed two new executive officers to provide further leadership dedicated to growth in the US market and executing strategic initiatives for the US operations. Garrett Wright was appointed Vice President of US Operations and David Raines was appointed Vice President US Sales and Marketing. Both individuals have long tenure with Phoenix USA and have played key roles in the growth thus far.

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

Results of Operations

Three and Six-Month Periods Ended June 30, 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 June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**140,970**	120,101	17	**297,062**	223,518	33
Motor rental	**11,427**	6,137	86	**20,669**	12,050	72
Sale of motor equipment and parts	**3,221**	-	n.m.	**3,910**	-	n.m.
Total revenue	**155,618**	126,238	23	**321,641**	235,568	37

n.m. – not meaningful

In the second quarter of 2023, PHX Energy's consolidated revenue was $155.6 million, a 23 percent increase compared to the $126.2 million in the second quarter of 2022 and a 6 percent decrease compared to the $166 million in the first quarter of 2023. A decrease from the first quarter to the second quarter is typical due to Canadian spring break up and additionally wildfires in Alberta also affected the Corporation's Canadian drilling activity in the 2023-quarter. For the six-month period ended June 30, 2023, the Corporation generated consolidated revenue of $321.6 million, an increase of 37 percent as compared to the same 2022-period which generated consolidated revenue of $235.6 million. Higher revenue in both the 2023 three and six-month periods was mainly driven by stronger average consolidated revenue per day(3) realized through increased capacity in the Corporation's fleet of high performance technologies, the cumulative impact of previous and recent pricing increases carried out to mitigate the effects of inflationary costs, and the strengthening of the US dollar relative to the 2022-quarter.

For the three and six-month period ended June 30, 2023, average consolidated revenue per day(3) for directional drilling services increased by 15 percent and 20 percent, respectively. Average consolidated revenue per day increased to $21,603 in the 2023 three-month period from $18,782 in the same 2022-period and increased to $20,515 in the 2023 six-month period from $17,086 in the same 2022-period.

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During the second quarter of 2023, the US industry rig count averaged 700 rigs operating per day, which is only 2 percent greater than the average of 687 rigs in the second quarter of 2022. US rig count has been decreasing since the fourth quarter of 2022 and is 6 percent lower in the second quarter of 2023 compared to the average of 742 rigs in the first quarter of 2023. In Canada, the average rig count for the 2023 three-month period increased 4 percent to 117 rigs from 113 rigs in the second 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 were relatively flat at 6,526 days in the second quarter of 2023 compared to 6,486 days in the second quarter of 2022. For the six-month period ended June 30, 2023, consolidated operating days increased by 9 percent to 14,480 from 13,281 days in the corresponding 2022-period.

PHX Energy's revenue from motor rentals grew by 86 percent to $11.4 million in the 2023-quarter from $6.1 million in the same 2022-quarter and increased by 72 percent to $20.7 million in the 2023 six-month period from $12.1 million in the same 2022-period. Higher motor rental revenue in both 2023-periods primarily resulted from the continued focus on marketing Atlas technology as a stand-alone product line and expanded capacity in the Corporation's Atlas motor fleet.

In the 2023-quarter, PHX Energy sold $3.2 million in Atlas motors and parts. With the two sales agreements in place, the Corporation expects to grow this business line in future periods.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Direct costs	**119,870**	100,520	19	**251,858**	192,466	31
Depreciation & amortization drilling and other equipment (included in direct costs)	**9,621**	7,823	23	**18,938**	15,099	25
Depreciation & amortization right-of-use asset (included in direct costs)	**827**	849	(3)	**1,235**	1,685	(27)
Gross profit as a percentage of revenue excluding depreciation & amortization(1)	**30%**	27%		**28%**	25%	

Direct costs are comprised of field and shop expenses, costs of motors and parts sold, and include depreciation and amortization of the Corporation's equipment and right-of-use assets. For the three-month period ended June 30, 2023, direct

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costs increased by 19 percent to $119.9 million from $100.5 million in the 2022-period. For the 2023 six-month period, direct costs increased by 31 percent to $251.9 million from $192.5 million in the same 2022-period. Higher direct costs in both 2023 periods were mainly driven by greater depreciation and amortization expenses on drilling and other equipment, higher motor repairs associated with growth in motor rental activity, greater costs of motors and parts sold, and increased overall costs related to personnel, repair parts, and equipment rentals as a result of inflation and activity growth in the first half of 2023. The Corporation's depreciation and amortization on drilling and other equipment increased by 23 percent and 25 percent, respectively, in the 2023 three and six-month periods due to the volume of fixed assets acquired as part of PHX Energy's capital expenditure program in the first half of 2023.

In the three and six-month periods of 2023, gross profit as a percentage of revenue excluding depreciation and amortization improved to 30 percent and 28 percent, respectively, compared to 27 percent and 25 percent in the corresponding 2022-periods. Greater profitability in both periods was largely driven by the higher average consolidated revenue per day achieved and various strategies implemented by PHX Energy over the past year to gain cost efficiencies and soften the impact of rising costs caused by inflation. Margins from the rental and sale of Atlas motors also contributed to the increase in gross profits in the 2023 periods.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Selling, general and administrative ("SG&A") costs	**15,522**	11,836	31	**31,078**	33,947	(8)
Cash-settled share-based compensation (included in SG&A costs)	**2,556**	715	n.m.	**3,930**	12,452	(68)
Equity-settled share-based compensation (included in SG&A costs)	**186**	(75)	n.m.	**287**	260	10
SG&A costs excluding share-based compensation as a percentage of revenue[(1)]	**8%**	9%		**8%**	9%	

n.m. – not meaningful

For the three-month period ended June 30, 2023, SG&A costs were $15.5 million, an increase of 31 percent as compared to $11.8 million in the corresponding 2022-period. Higher SG&A costs in the 2023-quarter were largely due to rising personnel-related costs mainly attributable to inflation and the increase in the compensation expenses related to cash-settled share-based awards. In the 2023 six-month period, SG&A costs decreased by 8 percent to $31.1 million from $33.9 million in the corresponding 2022-period. Lower SG&A costs in the first half of 2023 were primarily driven by the decline in the compensation expenses related to cash-settled share-based awards.

[(1)] Non-GAAP financial measure or ratio 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.

Cash-settled share-based compensation relates to the Corporation's retention awards and are measured at fair value. For the three and six-month periods ended June 30, 2023, the related compensation expense recognized by PHX Energy was $2.6 million (2022 - $0.7 million) and $3.9 million (2022 - $12.5 million), respectively. Changes in cash-settled share-based compensation expense in the 2023-periods were mainly driven by fluctuations in the Corporation's share price, the number of awards granted in the period, and changes in the estimated payout multiplier for performance awards. There were 2,100,746 retention awards outstanding as at June 30, 2023 (2022 – 3,425,196). Excluding share-based compensation, SG&A costs as a percentage of revenue for both the 2023 three and six-month periods improved to 8 percent as compared to 9 percent in the corresponding 2022 periods.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Research and development expense	**1,314**	873	51	**2,571**	1,630	58

PHX Energy's research and development ("R&D") expenditures for the three and six-month periods ended June 30, 2023, were $1.3 million (2022 - $0.9 million) and $2.6 million (2022 - $1.6 million), respectively. Higher R&D expenditures in both 2023 periods were mainly due to increased prototype expenses and more personnel necessary to support the greater number of ongoing initiatives to continuously improve the reliability of equipment, reduce costs to operations, and develop new technologies.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Finance expense	**709**	262	171	**1,376**	374	268
Finance expense lease liabilities	**564**	501	13	**1,140**	1,008	13

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three and six-month periods ended June 30, 2023, finance expenses increased to $0.7 million (2022 - $0.3 million) and $1.4 million (2022 - $0.4 million), respectively, mainly due to higher drawings on the credit facilities that were used to fund PHX Energy's capital spending. Additionally, variable interest rates on the Corporation's operating and syndicated facilities continued to trend upwards and contributed to higher finance expenses in the 2023 periods.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three and six-month periods ended June, 2023, finance expense lease liabilities increased by 13 percent in both periods primarily due to new premise leases entered in the fourth quarter of 2022 and first quarter of 2023 for a new facility in Midland, Texas and additional head office space in Calgary, Alberta.

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Net gain on disposition of drilling equipment	**5,593**	3,060	**15,549**	6,642
Foreign exchange gains (losses)	**897**	(64)	**920**	(76)
Bad debts	**(1,223)**	-	**(1,223)**	-
Other	**-**	512	**-**	512
Other income	**5,267**	3,508	**15,246**	7,078

For the three and six-month periods ended June 30, 2023, the Corporation recognized other income of $5.3 million $15.2 million, respectively (2022 - $3.5 million and $7.1 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 2023 periods, more instances of high dollar valued downhole equipment losses occurred as compared to the corresponding 2022 periods which resulted in higher proceeds and gains. 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.

The Corporation recognized foreign exchange gains of $0.9 million in both the 2023 three and six-month periods (2022 - $0.1 million foreign exchange losses) primarily due to the settlement of a USD-denominated receivable as a result of a reorganization in Luxembourg.

In the 2023 periods, PHX Energy provisioned for bad debt for $1.2 million (2022 - nil) which relates mainly to one client.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Provision for income taxes	**4,797**	2,934	**8,338**	2,717
Effective tax rates(3)	**21%**	19%	**17%**	21%

(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.

For the three-month period ended June 30, 2023, the Corporation reported income tax provision of $4.8 million (2022 - $2.9 million), of which, $5.3 million was current and a recovery of $0.5 million was deferred. For the six-month period ended June 30, 2023, PHX Energy recognized provision for income taxes of $8.3 million (2022 - $2.7 million), of which, $8 million was current. Increased current taxes in both 2023 periods mainly resulted from improved taxable income in the US. PHX Energy's effective tax rate was 21 percent in the 2023-quarter and 17 percent in the 2023 six-month period which 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 to income for tax purposes 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 Western Canadian Sedimentary Basin, and internationally in Albania.

United States

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**110,778**	99,481	11	**227,143**	175,634	29
Motor rental	**10,955**	5,886	86	**19,568**	11,528	70
Sale of motor equipment and parts	**3,221**	-	n.m.	**3,910**	-	n.m.
Total US revenue	**124,954**	105,367	19	**250,621**	187,162	34
Reportable segment profit before tax [i]	**24,037**	16,885	42	**39,959**	23,331	71

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

For the three-month period ended June 30, 2023, total US revenue increased by 19 percent to $125 million as compared to $105.4 million in the 2022-quarter. The strong second quarter revenue generated followed the record revenue trend set in the previous two quarters, with a slight decrease as compared to the first quarter of 2023 due to a slowdown in industry activity. With two consecutive strong quarters in 2023, US revenue for the first half of 2023 increased 34 percent to $250.6 million from $187.2 million in the 2022-period.

In the second quarter of 2023, the Corporation's US drilling activity decreased by 7 percent to 4,364 operating days compared to 4,707 days in the second quarter of 2022 and has decreased by 9 percent as compared to the 4,820 days in the first quarter of 2023. In comparison, the US industry horizontal and directional rig count in the second quarter of 2023 only increased 2 percent with 700 active rigs per day as compared to 687 rigs per day in the second quarter of 2022 and decreased by 6 percent when compared to an average of 742 active horizontal and directional rigs per day in the first quarter of 2023. (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, https://rigcount.bakerhughes.com/na-rig-count). For the six-month period ended June 30, 2023, PHX Energy's US drilling activity increased 5 percent to 9,184 operating days as compared to 8,753 days in the same 2022-period. This increase was mainly a result of strong activity in the first quarter of 2023.

Horizontal and directional drilling continued to represent the majority of rigs running on a daily basis in both 2023 periods. Phoenix USA was active in the Permian, Scoop/Stack, Marcellus, Utica, Bakken, and Niobrara basins in the first half of 2023.

For the three-month period ended June 30, 2023, average revenue per day(3) for directional drilling services rose to $25,388 from $21,135 in the second quarter of 2022, a 20 percent increase. In the 2023 six-month period, average revenue per day for directional drilling services increased 23 percent to $24,734 from $20,067 in the same 2022-period. Higher average revenue per day in both 2023 periods was realized as a result of continued strong demand for the Corporation's premium technologies, superior operational performance of personnel and equipment, and increased capacity and utilization in the Corporation's premium technologies. The strong US dollar in both 2023 periods 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 14 percent and 16 percent, respectively, in the 2023 three and six-month periods.

In the second quarter of 2023, PHX Energy's motor rental business continued to grow. US motor rental revenue in the 2023-quarter was $11 million as compared to $5.9 million in the same 2022-quarter, an increase of 86 percent. In the first half of 2023, US motor rental revenue was $19.6 million, a 70 percent increase compared to $11.5 million in the same 2022-period. During the 2023-quarter, PHX Energy also sold motor equipment and parts to a customer and generated $3.2 million of revenue from this new line of business.

For the three and six-month periods ended June 30, 2023, the US segment realized reportable segment income before tax of $24 and $40 million, respectively, which are 42 percent and 71 percent higher than the corresponding 2022-periods. Higher average revenue per day and growth in the rental and sale of Atlas motors greatly contributed to improved profitability in both 2023 periods.

(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.

Canada

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**28,970**	19,453	49	**67,572**	46,321	46
Motor rental	**472**	251	88	**1,101**	522	111
Total Canadian revenue	**29,442**	19,704	49	**68,673**	46,843	47
Reportable segment profit (loss) before tax [(i)]	**1,677**	(16)	n.m.	**9,565**	3,450	177

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

In the three-month period of 2023, PHX Energy's Canadian operations continued to generate strong quarterly revenues, trending with the first quarter of 2023. For the three-month period ended June 30, 2023, PHX Energy's Canadian division generated a second quarter record of $29.4 million in revenue, an increase of 49 percent compared to $19.7 million in the 2022-quarter. In the 2023 six-month period, Canadian division revenue was $68.7 million, an increase of 47 percent as compared to $46.8 million in the same 2022-period.

For the three and six-month periods ended June 30, 2023, operating days improved by 23 percent and 16 percent to 2,076 and 5,127, respectively, compared to 1,688 days and 4,418 days in the corresponding 2022-periods. In comparison, industry horizontal and directional drilling activity (as measured by drilling days) was relatively the same as the previous year's quarter with 10,243 days in the second quarter of 2023, and increased by 6 percent to 28,119 days in the first half of 2023 (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.

Throughout the first half of 2023, the Canadian market remained highly competitive but through successful marketing efforts, strong operational performance, and deployment of more premium technology, average revenue per day[(3)] for directional drilling services increased by 19 percent to $13,954 in the 2023-quarter from $11,692 in the corresponding 2022-quarter and increased by 24 percent to $13,181 in the 2023 six-month period compared to $10,604 in the same 2022-period.

For the three and six-month periods ended June 30, 2023, the Corporation's Canadian division recognized reportable segment profit before tax of $1.7 million (2022 – loss of $16 thousand) and $9.6 million (2022 - $3.5 million), respectively. Improved levels of profitability in the 2023 periods were mainly driven by increased volume of activity and higher average revenue per day realized in both 2023 periods.

[(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.

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Revenue	**1,222**	1,167	5	**2,347**	1,563	50
Reportable segment profit (loss) before tax	**490**	523	(6)	**897**	361	148

The Corporation's international segment revenue is comprised of revenue from Albania. For the three and six-month periods ended June 30, 2023, the international segment's revenue was $1.2 million (2022 - $1.2 million) and $2.3 million (2022 - $1.6 million), respectively. Albania operations remain consistent with one rig which resumed operations in the first quarter of 2022.

The international segment generated reportable segment profit before tax of $0.5 million in the 2023 three-month period, flat against the same 2022-period, and $0.9 million in the 2023 six-month period, more than double compared to the same 2022-period.

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 and six-month periods ended June 30, 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 period ended June 30,		Six-month period ended June 30,
		2022		2022
Revenue	$	4,648	$	7,443
Expenses		(3,072)		(5,781)
		1,576		1,662
Reclassification of foreign currency translation loss on disposition of Phoenix TSR		(10,561)		(10,561)
Loss on disposition of Phoenix TSR		(3,496)		(3,496)
Impairment and other write-offs		-		(1,967)
Loss from discontinued operations		(12,481)		(14,362)
Income tax from discontinued operations		169		196
Loss from discontinued operations, net of taxes	$	4,648	$	7,443

Summary of Quarterly Results – Continuing Operations

(Stated in thousands of dollars except per share amounts)

	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22	Mar-22	Dec-21	Sept-21
Revenue	**155,618**	166,022	157,758	142,418	126,238	109,304	102,296	93,338
Earnings (loss)	**18,108**	22,417	20,333	13,475	12,818	(2,315)	9,330	4,206
Earnings (loss) per share – basic	**0.35**	0.44	0.40	0.27	0.25	(0.05)	0.19	0.09
Earnings (loss) per share – diluted	**0.35**	0.42	0.39	0.27	0.25	(0.05)	0.18	0.08
Dividends paid	**7,656**	7,636	5,078	3,797	3,791	2,482	2,505	1,260
Cash and cash equivalents	**20,080**	15,502	18,247	27,024	17,971	11,284	24,829	24,917
Loans and borrowings	**27,685**	29,847	22,731	24,000	20,108	3,749	-	-

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**22,633**	11,449	**26,341**	7,740
Funds from operations(2)	**30,248**	21,822	**56,985**	24,703

	Jun. 30, '23	Dec. 31, '22
Working capital(2)	**110,963**	94,339
Net debt(2)	**7,605**	4,484

In the second quarter and first half of 2023, cash flow from operating activities increased to $22.6 million and $26.3 million, respectively, as compared to the $11.4 million and $7.7 million in the corresponding 2022 periods. For the three and six-month periods ended June 30, 2023, funds from operations were $30.2 million and $57 million, respectively, as compared to $21.8 million and $24.7 million in the comparable 2022 periods. The significant increase in cash flows from operating activities and funds from operations are primarily attributable to higher levels of profitability realized both 2023 periods.

As at June 30, 2023, the Corporation had working capital of $111 million, an increase of $16.7 million from the $94.3 million reported at December 31, 2022. The increase in working capital at June 30, 2023 was primarily due to reduced levels of trade and other payables and accruals. Net debt as at June 30, 2023 was $7.6 million, an increase of $3.1 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.

(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.

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, including our base dividend program, share buy backs and potential special dividends. 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 does not meet its budgeted cash flow from operating activities, dividends to shareholders may be reduced or suspended entirely.

On June 15, 2023, the Corporation declared a dividend of $0.15 per common share, which is double the dividend declared on June 15, 2022. An aggregate of $7.6 million was paid on July 17, 2023 to shareholders of record at the close of business on June 30, 2023.

Pursuant to the current NCIB, 267,800 common shares were purchased by the Corporation for $1.6 million and cancelled in the second quarter of 2023. Subsequent to June 30, 2023, the Corporation purchased and cancelled 1,242,000 common shares for $8.1 million. The Corporation has made an application to the TSX for renewal of its NCIB for a further one-year term. The anticipated renewal of the NCIB is subject to the review and approval of the TSX.

Investing Activities

Net cash used in investing activities for the period ended June 30, 2023 was $5.7 million as compared to $14.5 million in the 2022-period. During the second quarter of 2023, the Corporation spent $4.9 million (2022 - $10 million) to grow the Corporation's fleet of drilling equipment and $7.1 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 $8.6 million (2022 - $3.9 million), the Corporation's net capital expenditures[(2)] for the 2023-quarter were $3.5 million (2022 - $11.3).

[(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.

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Growth capital expenditures	**4,931**	10,046	**14,885**	23,014
Maintenance capital expenditures	**7,141**	5,168	**15,769**	10,406
Total capital expenditures	**12,072**	15,214	**30,654**	33,420
Deduct:				
Proceeds on disposition of drilling equipment	**(8,589)**	(3,883)	**(21,007)**	(9,180)
Net capital expenditures(2)	**3,483**	11,331	**9,647**	24,240

The 2023-period capital expenditures comprised of:

- $4.6 million in downhole performance drilling motors;
- $6.5 million in MWD systems and spare components and RSS; and
- $1 million in machinery and equipment and other assets.

The change in non-cash working capital balances of $2.2 million (use of cash) for the three-month period ended June 30, 2023, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $2.9 million (use of cash) for the three-month period ended June 30, 2022.

Financing Activities

For the three-month period ended June 30, 2023, net cash used in financing activities was $12 million as compared to $10.4 million generated from financing activities in the 2022-period. In the 2023-period:

- dividends of $7.7 million were paid to shareholders;
- $2.2 million net repayments were made towards the Corporation's syndicated credit facility;
- 267,800 common shares were purchased by the Corporation for $1.6 million and cancelled under the NCIB;
- payments of $0.7 million were made towards lease liabilities; and
- 33,500 common shares were issued from treasury for proceeds of $0.1 million upon the exercise of share options.

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(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.

Capital Resources

As of June 30, 2023, the Corporation had CAD $27.7 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $20.1 million. As at June 30, 2023, the Corporation had CAD $37 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 June 30, 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, $23 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 $38.5 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 June 30, 2023, the Corporation has commitments to purchase drilling and other equipment for $28.4 million. Delivery is expected to occur within 2023.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at June 30, 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.

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 June 30, 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 August 8, 2023**
Common shares outstanding, excluding shares held in trust	49,559,136
Common shares held in trust [i]	3,301
Total common shares outstanding	49,562,437
Dilutive securities:	
Options	1,218,334
Corporation shares – diluted	50,780,771

[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 June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Earnings from continuing operations:	**18,108**	12,818	**40,526**	10,504
Add:				
Depreciation and amortization drilling and other equipment	**9,621**	7,823	**18,938**	15,099
Depreciation and amortization right-of-use asset	**827**	849	**1,235**	1,685
Provision for income taxes	**4,797**	2,934	**8,338**	2,717
Finance expense	**709**	262	**1,376**	374
Finance expense lease liability	**564**	501	**1,140**	1,008
Equity-settled share-based payments	**186**	(75)	**287**	260
Unrealized foreign exchange loss	**(10)**	(28)	**(36)**	(119)
Adjusted EBITDA from continuing operations	**34,802**	25,084	**71,804**	31,528

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 June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Earnings (loss) from continuing operations:	**18,108**	12,818	**40,526**	10,504
Add:				
Depreciation and amortization drilling and other equipment	**9,621**	7,823	**18,938**	15,099
Depreciation and amortization right-of-use asset	**827**	849	**1,235**	1,685
Provision for (Recovery of) income taxes	**4,797**	2,934	**8,338**	2,717
Finance expense	**709**	262	**1,376**	374
Finance expense lease liability	**564**	501	**1,140**	1,008
Equity-settled share-based payments	**186**	(75)	**287**	260
Unrealized foreign exchange loss	**(10)**	(28)	**(36)**	(119)
Cash-settled share-based compensation expense	**2,556**	715	**3,930**	12,452
Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense	**37,358**	25,799	**75,734**	43,980

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 June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Revenue	**155,618**	126,238	**321,641**	235,568
Direct costs	**119,870**	100,520	**251,858**	192,466
Gross profit	**35,748**	25,718	**69,783**	43,102
Depreciation & amortization drilling and other equipment (included in direct costs)	**9,621**	7,823	**18,938**	15,099
Depreciation & amortization right-of-use asset (included in direct costs)	**827**	849	**1,235**	1,685
	46,196	34,390	**89,956**	59,886
Gross profit as a percentage of revenue excluding depreciation & amortization	**30%**	27%	**28%**	25%

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 June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
SG&A Costs	**15,522**	11,836	**31,078**	33,947
Deduct:				
Share-based compensation (included in SG&A)	**2,742**	640	**4,217**	12,712
	12,780	11,196	**26,861**	21,235
Revenue	**155,618**	126,238	**321,641**	235,568
SG&A costs excluding share-based compensation as a percentage of revenue	**8%**	9%	**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 June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**22,633**	11,449	**26,341**	7,740
Add (deduct):				
Changes in non-cash working capital	**5,770**	10,260	**28,152**	17,004
Interest paid	**521**	127	**1,034**	178
Income taxes paid (received)	**1,324**	(15)	**1,458**	(219)
Funds from operations	**30,248**	21,821	**56,985**	24,703

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 June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**22,633**	11,449	**26,341**	7,740
Add (deduct):				
Changes in non-cash working capital	**5,770**	10,260	**28,152**	17,004
Interest paid	**521**	127	**1,034**	178
Income taxes paid (received)	**1,324**	(15)	**1,458**	(219)
Cash payment on leases	**(1,257)**	(1,374)	**(2,595)**	(2,740)
	28,991	20,447	**54,390**	21,963
Proceeds on disposition of drilling equipment	**8,589**	3,883	**21,007**	9,180
Maintenance capital expenditures	**(7,141)**	(5,168)	**(15,769)**	(10,406)
Net proceeds	**1,448**	(1,285)	**5,238**	(1,226)
Growth capital expenditures	**(4,931)**	(10,046)	**(14,885)**	(23,014)
Excess cash flow	**25,508**	9,116	**44,743**	(2,277)

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)

	June 30, 2023	December 31, 2022
Current assets	**212,033**	210,227
Deduct:		
Current liabilities	**(101,070)**	(115,888)
Working capital	**110,963**	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)

	June 30, 2023	December 31, 2022
Loans and borrowings	**27,685**	22,731
Deduct:		
Cash and cash equivalents	**(20,080)**	(18,247)
Net debt	**7,605**	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 June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Growth capital expenditures	**4,931**	10,046	**14,885**	23,014
Maintenance capital expenditures	**7,141**	5,168	**15,769**	10,406
Total capital expenditures	**12,072**	15,214	**30,654**	33,420
Deduct:				
Proceeds on disposition of drilling equipment	**(8,589)**	(3,883)	**(21,007)**	(9,180)
Net capital expenditures	**3,483**	11,331	**9,647**	24,240

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;
- PHX Energy's intentions with respect to the NCIB and purchases thereunder and the effects of repurchases under the NCIB;
- The approved capital expenditure budget for the 2023-year, excluding proceeds on disposition of drilling equipment, of $61.5 million and the allocation of the total expenditures. The potential that 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 June 30, 2023, the Corporation has capital commitments to purchase drilling and other equipment for $28.4 million, $21.5 million of which is growth capital and includes $20.7 million for performance drilling motors and $0.8 million for other equipment. Equipment on order as at June 30, 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
- The forecasted delivery of Atlas fleets purchased under the sales agreements entered and the value of the purchases under these agreements. The anticipated ongoing orders for parts to maintain theses fleet and potential for subsequent orders;
- 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)

		June 30, 2023		December 31, 2022
ASSETS				
Current assets:				
Cash and cash equivalents	$	**20,079,623**	$	18,247,376
Trade and other receivables		**120,308,340**		125,836,273
Inventories		**68,418,478**		63,119,489
Prepaid expenses		**3,226,639**		3,024,166
Total current assets		**212,033,080**		210,227,304
Non-current assets:				
Drilling and other long-term assets (Note 6)		**121,124,658**		115,945,060
Right-of-use assets		**28,357,351**		29,336,163
Intangible assets		**14,539,520**		15,668,180
Investments		**3,000,500**		3,000,500
Other long-term assets		**1,172,348**		993,112
Deferred tax assets		**53,869**		53,869
Total non-current assets		**168,248,246**		164,996,884
Total assets	$	**380,281,326**	$	375,224,188
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Trade and other payables	$	**83,066,680**	$	104,688,901
Dividends payable (Note 8d)		**7,620,665**		7,636,085
Lease liability		**2,955,057**		2,906,708
Current tax liabilities		**7,428,078**		656,499
Total current liabilities		**101,070,480**		115,888,193
Non-current liabilities:				
Lease liability		**35,426,216**		36,768,003
Loans and borrowings (Note 7)		**27,684,591**		22,731,389
Deferred tax liability		**17,809,463**		18,496,619
Other (Note 8c)		**1,540,812**		4,461,531
Total non-current liabilities		**82,461,082**		82,457,542
Equity:				
Share capital (Note 8a)		**250,600,043**		251,344,809
Contributed surplus		**7,189,773**		7,044,317
Deficit		**(87,020,775)**		(112,120,484)
Accumulated other comprehensive income		**25,980,723**		30,609,811
Total equity		**196,749,764**		176,878,453
Total liabilities and equity	$	**380,281,326**	$	375,224,188

See accompanying notes to unaudited condensed consolidated interim financial statements.

Commitments (Note 6b)

Condensed Consolidated Statements of Comprehensive Earnings (Loss)

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Revenue (Note 4)	**$ 155,618,401**	$ 126,237,557	**$ 321,640,520**	$ 235,568,256
Direct costs	**119,869,868**	100,520,480	**251,858,067**	192,466,162
Gross profit	**35,748,533**	25,717,077	**69,782,453**	43,102,094
Expenses:				
Selling, general and administrative expenses	**15,522,116**	11,836,064	**31,078,242**	33,947,420
Research and development expenses	**1,314,356**	873,207	**2,570,775**	1,629,766
Finance expense	**709,320**	262,188	**1,376,160**	373,984
Finance expense lease liability	**563,759**	501,385	**1,140,145**	1,008,401
Other income (Note 9)	**(5,266,643)**	(3,508,490)	**(15,246,492)**	(7,077,881)
	12,842,908	9,964,354	**20,918,830**	29,881,690
Earnings from continuing operations before income taxes	**22,905,625**	15,752,723	**48,863,623**	13,220,404
Provision for (recovery of) income taxes				
Current	**5,251,592**	(13,775)	**7,975,233**	(229,272)
Deferred	**(454,209)**	2,948,037	**362,700**	2,946,091
	4,797,383	2,934,262	**8,337,933**	2,716,819
Earnings from continuing operations	**18,108,242**	12,818,461	**40,525,690**	10,503,585
Discontinued operations				
Net loss from discontinued operations, net of taxes (Note 11)	**-**	(12,649,964)	**-**	(14,558,032)
Net earnings (loss)	**18,108,242**	168,497	**40,525,690**	(4,054,447)
Other comprehensive income				
Foreign currency translation	**(4,522,004)**	4,144,053	**(4,629,088)**	1,824,583
Total comprehensive earnings (loss) for the period	**$ 13,586,238**	$ 4,312,550	**35,896,602**	(2,229,864)
Earnings (loss) per share – basic				
Continuing operations	**$ 0.35**	$ 0.25	**0.79**	0.21
Discontinued operations	**$ -**	$ (0.25)	**-**	(0.29)
Net earnings (loss)	**$ 0.35**	$ (0.00)	**0.79**	(0.08)
Earnings (loss) per share – diluted				
Continuing operations	**$ 0.35**	$ 0.25	**0.77**	0.21
Discontinued operations	**$ -**	$ (0.25)	**-**	(0.29)
Net earnings (loss)	**$ 0.35**	$ (0.00)	**0.77**	(0.08)

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

Six-month period ended June 30, 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	**165,000**	**349,450**	**-**	**-**	**-**	**349,450**
Issuance of share capital from trust on settlement of retention awards	**121,763**	**955,066**	**-**	**-**	**-**	**955,066**
Common Shares repurchased and cancelled	**(267,800)**	**(1,578,742)**	**-**	**-**	**-**	**(1,578,742)**
Common shares purchased and held in trust	**(114,000)**	**(612,000)**	**-**	**-**	**-**	**(612,000)**
Share-based payments	**-**	**-**	**286,916**	**-**	**-**	**286,916**
Fair value of options exercised	**-**	**141,460**	**(141,460)**	**-**	**-**	**-**
Net earnings	**-**	**-**	**-**	**-**	**40,525,690**	**40,525,690**
Foreign currency translation, net of tax	**-**	**-**	**-**	**(4,629,088)**	**-**	**(4,629,088)**
Dividends	**-**	**-**	**-**	**-**	**(15,425,981)**	**(15,425,981)**
Balance, June 30, 2023	**50,801,138**	**$ 250,600,043**	**$ 7,189,773**	**$ 25,980,723**	**$ (87,020,775)**	**$ 196,749,764**

Six-month period ended June 30, 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	982,705	1,811,853	-	-	-	1,811,853
Issuance of share capital from trust on settlement of retention awards	1,972,007	12,569,679	-	-	-	12,569,679
Common shares purchased and held in trust	(555,300)	(3,500,000)	-	-	-	(3,500,000)
Share-based payments	-	-	260,008	-	-	260,008
Fair value of options exercised	-	2,604,659	(2,604,659)	-	-	-
Net earnings	-	-	-	-	(4,054,447)	(4,054,447)
Foreign currency translation, net of tax	-	-	-	1,824,583	-	1,824,583
Reclassification of foreign currency translation loss on disposition (Note 11)	-	-	-	10,560,954	-	10,560,954
Dividends	-	-	-	-	(7,437,835)	(7,437,835)
Balance, June 30, 2022	50,378,074	$ 248,949,605	7,117,440	23,614,066	(133,214,072)	146,467,039

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities:				
Earnings from continuing operations	**$ 18,108,242**	$ 12,818,461	**40,525,690**	10,503,585
Adjustments for:				
Depreciation and amortization	**9,620,667**	7,822,953	**18,938,023**	15,099,473
Depreciation and amortization right-of-use asset	**827,396**	848,681	**1,234,835**	1,684,727
Provision for income taxes	**4,797,383**	2,934,262	**8,337,933**	2,716,819
Unrealized foreign exchange gain	**(9,617)**	(27,999)	**(35,928)**	(118,526)
Net gain on disposition of drilling equipment (Note 9)	**(5,593,260)**	(3,059,873)	**(15,549,425)**	(6,641,623)
Equity-settled share-based payments	**186,114**	(74,706)	**286,916**	260,008
Finance expense	**709,320**	262,188	**1,376,160**	373,984
Finance expense lease liability	**563,759**	501,385	**1,140,145**	1,008,401
Provision for bad debts	**1,222,764**	-	**1,222,764**	-
Provision for inventory obsolescence	**378,710**	297,639	**648,106**	824,656
Interest paid on lease liability	**(563,759)**	(501,385)	**(1,140,145)**	(1,008,401)
Interest paid	**(520,993)**	(127,248)	**(1,033,597)**	(178,171)
Income taxes received (paid)	**(1,323,848)**	14,880	**(1,458,010)**	219,130
Change in non-cash working capital	**(5,770,373)**	(10,259,827)	**(28,152,043)**	(17,003,987)
Continuing operations	**22,632,505**	11,449,411	**26,341,424**	7,740,075
Discontinued operations (Note 11)	**-**	(520,334)	**-**	(1,254,859)
Net cash from operating activities	**22,632,505**	10,929,077	**26,341,424**	6,485,216
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**8,589,174**	3,883,133	**21,006,626**	9,179,549
Acquisition of drilling and other equipment	**(12,071,525)**	(15,213,688)	**(30,654,445)**	(33,419,918)
Acquisition of intangible assets	**-**	(206,930)	**-**	(618,205)
Change in non-cash working capital	**(2,193,966)**	(2,924,122)	**(1,052,669)**	710,890
Continuing operations	**(5,676,317)**	(14,461,607)	**(10,700,488)**	(24,147,684)
Discontinued operations (Note 11)	**-**	(316,392)	**-**	(68,068)
Net cash used in investing activities	**(5,676,317)**	(14,777,999)	**(10,700,488)**	(24,215,752)
Cash flows from financing activities:				
Proceeds from (Repayment of) loans and borrowings	**(2,157,398)**	16,359,192	**5,168,129**	20,107,992
Proceeds from exercise of options	**82,965**	169,666	**349,450**	1,811,853
Dividends paid to shareholders	**(7,655,810)**	(3,790,543)	**(15,291,896)**	(6,272,603)
Repurchase of shares under the NCIB	**(1,578,742)**	-	**(1,578,742)**	-
Payments of Lease Liability	**(693,049)**	(872,923)	**(1,455,275)**	(1,731,911)
Purchase of shares held in trust	**-**	(1,500,000)	**(612,000)**	(3,500,000)
Continuing operations	**(12,002,034)**	10,365,392	**(13,420,334)**	10,415,331
Discontinued operations	**-**	-	**-**	-
Net cash from (used in) financing activities	**(12,002,034)**	10,365,392	**(13,420,334)**	10,415,331
Net increase (decrease) in cash and cash equivalents	**4,954,154**	6,516,470	**2,220,602**	(7,315,205)
Cash and cash equivalents, beginning of period	**15,501,672**	11,283,545	**18,247,376**	24,828,830
Effect of movements in exchange rates on cash held	**(376,203)**	171,319	**(388,355)**	457,709
Cash and cash equivalents, end of period	**$ 20,079,623**	$ 17,971,334	**20,079,623**	17,971,334

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

For the three and six-month periods ended June 30, 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 and technologies 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.

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 August 8, 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 periods 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 customer or 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 that a sales credit will be issued.

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 benefits 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 customer, 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 customer upon shipment of goods.

4. Revenue

The Corporation generates revenue primarily from providing directional drilling services to clients. 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 June 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Directional drilling services	**28,970**	19,453	**110,778**	99,481	**1,222**	1,167	**140,970**	120,101
Motor rental	**472**	251	**10,955**	5,886	**-**	-	**11,427**	6,137
Sale of motor equipment and parts	**-**	-	**3,221**	-	**-**	-	**3,221**	-
Total revenue	**29,442**	19,704	**124,954**	105,367	**1,222**	1,167	**155,618**	126,238

(Stated in thousands of dollars)	Canada		United States		International		Total	
Six-month periods ended June 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Directional drilling services	**67,572**	46,321	**227,143**	175,634	**2,347**	1,563	**297,062**	223,518
Motor rental	**1,101**	522	**19,568**	11,528	**-**	-	**20,669**	12,050
Sale of motor equipment and parts	**-**	-	**3,910**	-	**-**	-	**3,910**	-
Total revenue	**68,673**	46,843	**250,621**	187,162	**2,347**	1,563	**321,641**	235,568

5. Operating Segments

The Corporation provides directional and horizontal oil and natural gas well drilling services and technologies. 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 June 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total revenue	**29,442**	19,704	**124,954**	105,367	**1,222**	1,167	**155,618**	126,238
Reportable segment profit (loss) before income taxes	**1,677**	(16)	**24,037**	16,885	**490**	523	**26,204**	17,392

(Stated in thousands of dollars)	Canada		United States		International		Total	
Six-month periods ended June 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total revenue	**68,673**	46,843	**250,621**	187,162	**2,347**	1,563	**321,641**	235,568
Reportable segment profit before income taxes	**9,565**	3,450	**39,959**	23,331	**897**	361	**50,421**	27,142

(Stated in thousands of dollars)	Canada		United States[1]		International		Total	
As at June 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Drilling and other equipment	**30,391**	18,216	**89,891**	74,856	**843**	525	**121,125**	93,597

(1) June 30, 2023 includes USD $1.1 million of drilling and other equipment physically located in the Middle East region (2022 – USD $1.5 million).

Reconciliation of reportable segment profit and other material items
(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2023	2022	**2023**	2022
Reportable segment income before income taxes	**26,204**	17,392	**50,421**	27,142
Corporate:				
Selling, general and administrative expenses	**5,978**	3,511	**11,716**	17,988
Research and development expenses	**1,314**	873	**2,571**	1,630
Finance expense	**709**	262	**1,376**	374
Finance expense lease liability	**564**	501	**1,140**	1,008
Other income	**(5,267)**	(3,508)	**(15,246)**	(7,078)
Earnings from continuing operations before income taxes	**22,906**	15,753	**48,864**	13,220

6. Drilling and Other Long Term Assets

a) Acquisitions and Disposals

During the six-month period ended June 30, 2023, the Corporation acquired assets with a cost of $30.7 million (2022 - $33.4 million).

Assets with a carrying amount of $5.5 million (2022 - $2.5 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $15.5 million (2022 - $6.6 million), which is included in other income (see Note 9) in the condensed consolidated statement of comprehensive income.

b) Capital Commitments

As at June 30, 2023, the Corporation has commitments to purchase drilling and other equipment for $28.4 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 June 30, 2023**	Currency	Carrying Amount at December 31, 2022
Operating facility	CAD	15,000	December 12, 2025	CAD	**4,400**	CAD	731
Syndicated facility	CAD	50,000	December 12, 2025	CAD	**23,285**	CAD	22,000
Total CAD facility		65,000			**27,685**		22,731
US Operating facility	USD	15,000	December 12, 2025	USD	**-**	USD	-

The carrying amount of loans and borrowings is presented net of borrowing costs amounting to $0.2 million at June 30, 2023. Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at June 30, 2023 the Corporation was in compliance with all of its financial covenants as follows:

Ratio	Covenant	**June 30, 2023**
Debt to covenant EBITDA	< 3.0x	**0.22**
Interest coverage ratio	> 3.0x	**54.11**

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.

As at June 30, 2023 the Corporation has approximately CAD $37.1 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 cancelled	**(267,800)**		**(1,578,742)**
Common shares repurchased and held in trust	**(114,000)**		**(612,000)**
Issued shares pursuant to retention awards plan	**121,763**		**955,066**
Issued shares pursuant to share option plan	**165,000**		**490,910**
Balance as at June 30, 2023	**50,801,138**	**$**	**250,600,043**

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 and six-month periods ended June 30, 2023 were $0.2 million and $0.3 million, respectively (2022 - $0.1 million recovery and $0.3 million, respectively).

A summary of the status of the plan as at June 30, 2023 is presented below:

	June 30, 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	**(165,000)**	**2.12**	(1,970,866)	3.44
Forfeited / cancelled	**-**	**-**	-	-
Outstanding, end of period	**1,218,334**	**4.42**	1,133,334	3.31
Options exercisable, end of period	**634,994**	**3.05**	799,994	2.86

The weighted average share price at the date of exercise for share options exercised for the six-month period ended June 30, 2023 was $7.48 (2022 - $6.02).

The range of exercise prices for options outstanding at June 30, 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	0.69 yrs	2.81	100,000	2.81
35,000	0.69 yrs	2.83	35,000	2.83
100,000	1.68 yrs	2.19	100,000	2.19
50,000	1.68 yrs	2.09	50,000	2.09
300,000	2.68 yrs	2.74	199,998	2.74
133,334	2.68 yrs	2.64	66,666	2.64
150,000	3.68 yrs	6.08	49,998	6.08
100,000	3.68 yrs	6.16	33,332	6.16
150,000	4.69 yrs	7.96	-	7.96
100,000	4.69 yrs	7.83	-	7.83
1,218,334	2.96 yrs	$ 4.42	634,994	$ 3.05

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. Under the previous RAP, 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 six-month period ended June 30, 2023, the independent trustee purchased 114,000 common shares (2022 – 555,300) for a total cost of $0.6 million (2022 - $3.5 million) and released 121,763 common shares (2022 – 1,972,007) to settle retention award obligations of $1 million (2022 - $12.6 million). As at June 30, 2023, the Corporation held 3,301 common shares in trust (2022 – 245,830). 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 six-month period ended June 30, 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 June 30, 2023, 828,133 PAs were outstanding (2022 – 1,538,504).

The Corporation recorded a total of $3.9 million compensation expense relating to these plans for the six-month period ended June 30, 2023 (2022 – $12.5 million). The expense is included in selling, general and administrative expense and has a corresponding liability of $5.3 million in trade and other payables for the current portion and $1.5 million included in other liabilities for the long-term portion. There were 2,100,746 RAs and PAs outstanding as at June 30, 2023 (2022 – 3,425,196).

A summary of the status of the plan as at June 30, 2023 is presented below:

	June 30, 2023	December 31, 2022
RAs and PAs outstanding, beginning of period	**2,845,191**	3,267,579
Granted	**741,625**	1,613,555
Settled	**(1,486,070)**	(1,644,012)
Forfeited / cancelled	**-**	(391,931)
RAs and PAs outstanding, end of period	**2,100,746**	2,845,191

d) Dividends

On June 15, 2023, the Corporation declared a dividend of $0.15 per share or $7.6 million payable on July 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. Pursuant to the current NCIB, 267,800 common shares were purchased by the Corporation for $1.6 million and cancelled in the second quarter of 2023. Subsequent to June 30, 2023, the Corporation purchased and cancelled 1,242,000 common shares for $8.1 million.

For the six-month period ended June 30, 2022, the Corporation did not repurchase shares through its previous NCIB.

9. Other Income

	Three-month periods ended June 30,		Six-month periods ended June 30,	
(Stated in thousands of dollars)	**2023**	2022	**2023**	2022
Net gain on disposition of drilling equipment	**5,593**	3,060	**15,549**	6,642
Foreign exchange gains (losses)	**897**	(64)	**920**	(76)
Bad debts	**(1,223)**	-	**(1,223)**	-
Other	**-**	512	**-**	512
Other income	**5,267**	3,508	**15,246**	7,078

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 three 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 period ended June 30, 2022	Six-month period ended June 30, 2022
Revenue	$ 4,648	$ 7,443
Expenses	(3,072)	(5,781)
	1,576	1,662
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	(10,561)	(10,561)
Loss on disposition of Phoenix TSR	(3,496)	(3,496)
Impairment and other write-offs	-	(1,967)
Loss from discontinued operations	(12,481)	(14,362)
Income tax from discontinued operations	169	196
Loss from discontinued operations, net of taxes	$ (12,650)	$ (14,558)

Included in the Corporation's other comprehensive income for the six-month period ended June 30, 2022 is $0.2 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 period ended June 30, 2022	Six-month period ended June 30, 2022
Net loss from discontinued operations, net of taxes	$	(12,650)	(14,558)
Addback (deduct):			
Depreciation and amortization		-	136
Provision for income taxes		169	196
Unrealized foreign exchange gain		(84)	(56)
Interest and taxes paid, net		(3)	(3)
Loss on disposition of drilling equipment		316	68
Finance expense		2	3
Reclassification of foreign currency translation loss on disposition of Phoenix TSR		10,561	10,561
Impairment and other write-offs		-	1,967
Loss on disposition of Phoenix TSR		3,496	3,496
Change in non-cash working capital		(2,327)	(3,065)
Cash used in operating activities	$	(520)	(1,255)

Cash from (used in) investing activities of discontinued operations are due to proceeds from disposition and a reversal of previously accrued proceeds.

12. Subsequent Events

On July 27, 2023, PHX Energy agreed upon the sale and licensed use of its Atlas High Performance Drilling Motors to an existing international client. PHX Energy will be providing a fleet of Atlas motors and parts amounting to approximately $5 million with delivery anticipated to be completed by the end of 2023.

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

Garrett Wright
Phoenix Technology Services USA Inc.
Vice President US Operations

David Raines
Phoenix Technology Services USA Inc.
Vice President US Sales & 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