PHX
ENERGY SERVICES CORP.

Q3 FINANCIAL STATEMENTS & NOTES 2019

Condensed Consolidated Statements of Financial Position

(unaudited)

		September 30, 2019		December 31, 2018
ASSETS				
Current assets:				
Cash and cash equivalents	$	**6,667,910**	$	3,643,418
Trade and other receivables		**90,827,920**		103,987,716
Inventories		**30,529,040**		27,558,003
Prepaid expenses		**3,294,154**		2,428,221
Current tax assets		**55,941**		625,964
Total current assets		**131,374,965**		138,243,322
Non-current assets:				
Drilling and other equipment (Note 6)		**85,031,445**		94,164,880
Right-of-use asset (Note 3)		**31,602,910**		-
Intangible assets		**20,138,047**		22,301,680
Goodwill		**8,876,351**		8,876,351
Deferred tax assets		**568,299**		594,049
Total non-current assets		**146,217,052**		125,936,960
Total assets	$	**277,592,017**	$	264,180,282
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Lease liability (Note 3)	$	**2,823,969**	$	-
Operating facility (Note 7)		**6,568,072**		13,348,562
Trade and other payables		**59,775,517**		64,578,428
Total current liabilities		**69,167,558**		77,926,990
Non-current liabilities:				
Lease liability (Note 3)		**40,839,263**		-
Loans and borrowings (Note 7)		**15,000,000**		11,821,000
Deferred tax liability		**2,993,562**		2,886,606
Provision for onerous contracts (Note 3)		**-**		1,832,000
Deferred income (Note 3)		**-**		1,300,007
Total non-current liabilities		**58,832,825**		17,839,613
Equity:				
Share capital (Note 8a)		**256,566,776**		265,760,391
Contributed surplus		**11,148,473**		10,631,982
Retained earnings		**(133,869,411)**		(125,385,208)
Accumulated other comprehensive income		**15,745,796**		17,406,514
Total equity		**149,591,634**		168,413,679
Total liabilities and equity	$	**277,592,017**	$	264,180,282

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income / Loss

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2019	2018	**2019**	2018
Revenue	**$ 93,099,227**	$ 85,032,830	**$ 268,203,575**	$ 224,800,407
Direct costs	**77,089,805**	69,477,782	**228,140,741**	197,795,786
Gross profit	**16,009,422**	15,555,048	**40,062,834**	27,004,621
Expenses:				
Selling, general and administrative expenses	**10,615,982**	12,983,042	**35,212,139**	30,765,451
Research and development expenses	**1,193,183**	836,752	**2,972,786**	2,506,363
Finance expense	**306,097**	264,046	**1,089,722**	929,017
Finance expense lease liability (Note 3)	**622,196**	-	**1,896,879**	-
Other income (Note 9)	**(407,597)**	(2,452,247)	**(2,445,385)**	(6,528,264)
	12,329,861	11,631,593	**38,726,141**	27,672,567
Earnings (loss) before income taxes	**3,679,561**	3,923,455	**1,336,693**	(667,946)
Provision for (Recovery of) income taxes				
Current	**121,492**	1,388,630	**590,276**	3,315,087
Deferred	**964,563**	(1,208,674)	**1,239,976**	(3,391,862)
	1,086,055	179,956	**1,830,252**	(76,775)
Net earnings (loss)	**2,593,506**	3,743,499	**(493,559)**	(591,171)
Other comprehensive income (loss)				
Foreign currency translation	**1,001,351**	(2,541,426)	**(1,660,718)**	753,944
Total comprehensive income (loss) for the period	**$ 3,594,857**	$ 1,202,073	**$ (2,154,277)**	$ 162,773
Earnings (loss) per share – basic	**$ 0.05**	$ 0.06	**$ (0.01)**	$ (0.01)
Earnings (loss) per share – diluted	**$ 0.05**	$ 0.06	**$ (0.01)**	$ (0.01)

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

Nine-month period ended September 30, 2019	**Share Capital Number**		**Share Capital Amount ($)**		**Contributed Surplus**		**Accumulated Other Comprehensive Income**		**Retained Earnings**		**Total Equity**
Balance, December 31, 2018	**57,963,720**	**$**	**265,760,391**	**$**	**10,631,982**	**$**	**17,406,514**	**$**	**(125,385,208)**	**$**	**168,413,679**
Adjustment Initial application of IFRS 16	**-**		**-**		**-**		**-**		**(7,990,644)**		**(7,990,644)**
Net issuance of share capital	**45,000**		**87,750**		**-**		**-**		**-**		**87,750**
Common Shares repurchased	**(3,039,400)**		**(9,324,191)**		**-**		**-**		**-**		**(9,324,191)**
Share-based payments	**-**		**-**		**559,317**		**-**		**-**		**559,317**
Fair value of options exercised	**-**		**42,826**		**(42,826)**		**-**		**-**		**-**
Net loss	**-**		**-**		**-**		**-**		**(493,559)**		**(493,559)**
Foreign currency translation	**-**		**-**		**-**		**(1,660,718)**		**-**		**(1,660,718)**
Balance, September 30, 2019	**54,969,320**	**$**	**256,566,776**		**11,148,473**		**15,745,796**		**(133,869,411)**		**149,591,634**

Nine-month period ended September 30, 2018	Share Capital Number		Share Capital Amount ($)		Contributed Surplus		Accumulated Other Comprehensive Income		Retained Earnings		Total Equity
Balance, December 31, 2017	58,397,887	$	266,838,036	$	9,315,926	$	11,822,389	$	(106,438,399)	$	181,537,952
Net issuance of share capital	48,333		76,916		-		-		-		76,916
Common Shares repurchased	(416,800)		(1,034,758)		-		-		-		(1,034,758)
Share-based payments	-		-		1,200,656		-		-		1,200,656
Fair value of options exercised			52,763		(52,763)		-		-		-
Net loss	-		-		-		-		(591,171)		(591,171)
Foreign currency translation	-		-		-		753,944		-		753,944
Balance, September 30, 2018	58,029,420	$	265,932,957		10,463,819		12,576,333		(107,029,570)		181,943,539

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2019	2018	**2019**	2018
Cash flows from operating activities:				
Net income (loss)	**$ 2,593,506**	$ 3,743,499	**$ (493,559)**	$ (591,171)
Adjustments for:				
Depreciation and amortization	**9,893,523**	9,505,407	**30,178,287**	29,612,677
Depreciation and amortization right-of-use asset	**895,878**	-	**2,641,400**	-
Provision for (Recovery of) income taxes	**1,086,055**	179,956	**1,830,252**	(76,775)
Unrealized foreign exchange loss (gain)	**(21,904)**	(101,286)	**259,105**	(359,717)
Gain on disposition of drilling equipment	**(513,628)**	(2,358,209)	**(3,390,124)**	(6,209,463)
Equity-settled share-based payments	**160,260**	341,860	**559,317**	1,200,656
Finance expense	**306,097**	264,046	**1,089,722**	929,017
Provision for (Recovery of) bad debts	**61,590**	(7,553)	**387,728**	(15,441)
Provision for inventory obsolescence	**207,958**	49,049	**1,491,260**	256,157
Provision for onerous contracts	**-**	(122,000)	**-**	(270,000)
Amortization of deferred income	**-**	(33,333)	**-**	(99,999)
Interest paid	**(172,424)**	(93,951)	**(667,712)**	(441,842)
Income taxes received (paid)	**(77,482)**	(532,119)	**23,389**	(127,996)
Change in non-cash working capital	**(4,698,171)**	(4,808,355)	**6,755,880**	(7,934,636)
Net cash from operating activities	**9,721,258**	6,027,011	**40,664,945**	15,871,467
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**5,779,886**	3,197,615	**11,823,951**	11,165,720
Acquisition of drilling and other equipment	**(8,443,739)**	(8,066,652)	**(28,840,422)**	(15,831,277)
Acquisition of intangible assets	**(66,180)**	(26,135)	**(66,180)**	(32,733)
Change in non-cash working capital	**(1,631,833)**	2,459,181	**(5,345,034)**	1,259,571
Net cash used in investing activities	**(4,361,866)**	(2,435,991)	**(22,427,685)**	(3,438,719)
Cash flows from financing activities:				
Repurchase of shares under the NCIB	**(3,978,754)**	(797,258)	**(9,324,191)**	(1,034,758)
Proceeds from (Repayment of) operating facility	**9,827**	(1,500,675)	**(6,780,490)**	(872,510)
Payments of Lease Liability	**(819,493)**	-	**(2,374,837)**	-
Proceeds from (Repayment of) loans and borrowings	**(1,308,700)**	(4,000,000)	**3,179,000**	(9,000,000)
Proceeds from issuance of share capital	**-**	76,916	**87,750**	76,916
Net cash used in financing activities	**(6,097,120)**	(6,221,017)	**(15,212,768)**	(10,830,352)
Net increase (decrease) in cash and cash equivalents	**(737,728)**	(2,629,997)	**3,024,492**	1,602,396
Cash and cash equivalents, beginning of period	**7,405,638**	8,354,932	**3,643,418**	4,122,539
Cash and cash equivalents, end of period	**$ 6,667,910**	$ 5,724,935	**$ 6,667,910**	$ 5,724,935

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2019 and 2018

In Canadian dollars (unaudited)

1. Reporting Entity

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

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

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

2. Basis of Preparation

a) Statement of Compliance

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

These condensed consolidated interim financial statements were authorized by the Board of Directors on October 30, 2019.

b) Basis of Measurement

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

c) Functional and Presentation Currency

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

d) Use of Estimates and Judgments

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2018.

3. Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2018, unless specified.

a) New Standard – IFRS 16 Leases

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

i. Definition of a Lease

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

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

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

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

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

ii. As a Lessee

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

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

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

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

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

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

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

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

iii. As a Lessor

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

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

iv. Impacts on Financial Statements

Impacts on transition

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

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

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

(2) Includes current and non-current lease liabilities.

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

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

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

Impacts for the period

As a result of applying IFRS 16, the Corporation recognized right-of-use assets in the amount of $31.6 million and lease liabilities of $43.7 million as at September 30, 2019. Due to the addition of right-of-use asset and lease liabilities in 2019, the Corporation recognized depreciation expense and finance expense lease liability of $2.6 million and $1.9 million, respectively, for the nine-month period ended September 30, 2019.

4. Operating Segments

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

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Three-month periods ended September 30,	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Drilling services revenue	**17,779**	24,578	**68,265**	54,129	**5,711**	5,258	**91,755**	83,965
EDR rental revenue	**1,344**	1,068	**-**	-	**-**	-	**1,344**	1,068
Total revenue	**19,123**	25,646	**68,265**	54,129	**5,711**	5,258	**93,099**	85,033
Reportable segment profit before income taxes	**1,571**	1,831	**4,975**	3,219	**304**	1,221	**6,850**	6,271

(Stated in thousands of dollars)

Nine-month periods ended September 30,	Canada 2019	Canada 2018	United States 2019	United States 2018	International 2019	International 2018	Total 2019	Total 2018
Drilling services revenue	**50,909**	63,301	**198,399**	143,842	**15,154**	14,651	**264,462**	221,794
EDR rental revenue	**3,742**	3,006	**-**	-	**-**	-	**3,742**	3,006
Total revenue	**54,651**	66,307	**198,399**	143,842	**15,154**	14,651	**268,204**	224,800
Reportable segment profit (loss) before income taxes	**616**	(1,469)	**10,802**	2,937	**369**	831	**11,787**	2,299

(Stated in thousands of dollars)

As at September 30,	**Canada** 2019	**Canada** 2018	**United States** 2019	**United States** 2018	**International** 2019	**International** 2018	**Total** 2019	**Total** 2018
Drilling and other equipment	**23,537**	31,231	**56,547**	44,827	**4,947**	7,137	**85,031**	83,195
Goodwill	**8,876**	8,876	**-**	-	**-**	-	**8,876**	8,876

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended September 30, 2019	Three-month periods ended September 30, 2018	Nine-month periods ended September 30, 2019	Nine-month periods ended September 30, 2018
Reportable segment profit before income taxes	**6,850**	6,271	**11,787**	2,299
Corporate:				
Selling, general and administrative expenses	**1,457**	3,699	**6,935**	6,060
Research and development expenses	**1,193**	837	**2,973**	2,506
Finance expense	**306**	264	**1,090**	929
Finance expense lease liability	**622**	-	**1,897**	-
Other income	**(408)**	(2,452)	**(2,445)**	(6,528)
Earnings (loss) before income taxes	**3,680**	3,923	**1,337**	(668)

5. Seasonality of Operations

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

6. Drilling and Other Equipment

a) Acquisitions and Disposals

During the nine-month period ended September 30, 2019, the Corporation acquired assets with a cost of $28.8 million (2018 - $15.8 million).

Assets with a carrying amount of $8.4 million (2018 - $5.0 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $3.4 million (2018 - $6.2 million), which is included in other income in the condensed consolidated statement of comprehensive income.

b) Capital Commitments

As at September 30, 2019, the Corporation has commitments to purchase drilling and other equipment for $14.7 million; delivery is expected to occur before the first half of 2020.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at September 30, 2019**	Currency	Carrying Amount at December 31, 2018
Operating Facility	CAD	15,000	Due on demand	CAD	**6,568**	CAD	13,349
Syndicated Facility	CAD	50,000	December 11, 2022	CAD	**15,000**	CAD	5,000
US Operating Facility	USD	15,000	December 11, 2022	USD	**-**	USD	5,000

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at September 30, 2019 the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**September 30, 2019**
Debt to covenant EBITDA	< 3.0x	**0.45**
Interest coverage ratio	> 3.0x	**35.34**

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

On July 29, 2019, the Corporation extended the maturity date of the syndicated loan agreement to December 11, 2022. The Corporation also increased the borrowing amounts in the syndicated facility from CAD $48.0 million to CAD $50.0 million and in the US operating facility from USD $5.0 million to USD $15.0 million.

8. Share Capital

a) Authorized and Issued Shares

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

	Number		Amount
Balance as at January 1, 2018	58,397,887	$	266,838,036
Common Shares repurchased	(482,500)		(1,207,324)
Issued shares pursuant to share option plan	48,333		129,679
Balance as at December 31, 2018	57,963,720	$	265,760,391
Common Shares repurchased	**(3,039,400)**		**(9,324,191)**
Issued shares pursuant to share option plan	**45,000**		**130,576**
Balance as at September 30, 2019	**54,969,320**	**$**	**256,566,776**

b) Share Option Program (Equity-Settled)

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

Summary of option grants in 2019

Number	Exercise Price	Expiration Date	Fair Value
200,000	$ 2.81	March 8, 2024	$ 1.22
50,000	2.83	March 8, 2024	1.21
250,000			

The Corporation values all of its share options using the Black-Scholes model. The Corporation's determination of fair value of options on the date of grant is affected by the Corporation's share price as well as assumptions regarding a number of variables. For the options granted during 2019 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 56 percent, forfeiture rate of nil, and a risk free interest rate of 1.65 percent. The amounts computed according to the Black-Scholes model method may not be indicative of the actual values realized upon the exercise of these options by the holders.

During the three and nine-month periods ended September 30, 2019, the Corporation recognized total compensation expense of $0.2 million and $0.6 million, respectively (2018 - $0.3 million and $1.2 million) for share options granted between 2016 and 2019.

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

	2019		2018	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**5,291,101**	**$ 3.89**	5,499,468	$ 4.41
Granted	**250,000**	**2.81**	250,000	1.99
Exercised	**(45,000)**	**1.95**	(48,333)	1.59
Forfeited / cancelled	**-**	**-**	(41,667)	3.06
Expired	**(200,000)**	**15.81**	(368,367)	10.78
Outstanding, end of period	**5,296,101**	**3.41**	5,291,101	3.89
Options exercisable, end of period	**4,796,093**	**3.54**	4,042,758	4.20

The range of exercise prices for options outstanding at September 30, are as follows:

Options Outstanding				Options Exercisable	
Original Exercise Price	Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$ 1.55	1,318,334	1.43 yrs	$ 1.55	1,318,334	$ 1.55
1.71	175,000	2.88 yrs	1.71	116,666	1.71
1.79	575,000	2.88 yrs	1.79	383,331	1.79
1.95	165,267	2.04 yrs	1.95	148,600	1.95
2.00	200,000	3.44 yrs	2.00	133,332	2.00
2.81	200,000	4.44 yrs	2.81	66,664	2.81
2.83	50,000	4.44 yrs	2.83	16,666	2.83
3.41	25,000	2.15 yrs	3.41	25,000	3.41
4.06	1,305,000	2.43 yrs	4.06	1,305,000	4.06
4.15	415,000	2.43 yrs	4.15	415,000	4.15
6.87 - 15.81	867,500	0.39 yrs	7.07	867,500	7.07
	5,296,101	2.03 yrs	$ 3.41	4,796,093	$ 3.54

c) Retention Award Plan

The retention award plan results in eligible participants receiving cash compensation in relation to the value of a specified number of underlying notional retention awards. The retention award plan has two types of awards Restricted Awards (RAs) and Performance Awards (PAs). RAs vest evenly over a period of three-years. Upon vesting and subsequent exercise, the holder is entitled to receive a cash payment based on the fair value of the underlying shares determined using the five-day weighted-average trading price of the shares ending immediately prior to the exercise date plus accrued re-invested dividends.

PAs vesting and subsequent exercise is similar to RAs, except a payout multiplier is applied to the final payout. The payout multiplier is linked solely to total shareholder return on the Corporation's common shares relative to returns on securities of members of the Corporation's peer comparison group over the applicable vesting period and can range from a payout of zero percent to 200 percent. For the nine-month period ended September 30, 2019, 750,000 PAs were granted (2018 – 750,000), 566,668 PAs settled at a weighted-average payout multiplier of 192 percent (2018 – 66,664), no PAs were forfeited (2018 - nil), and, as at September 30, 2019, 1,316,668 PAs were outstanding (2018 – 883,336).

The Corporation recorded a total of $5.1 million compensation expense relating to these plans for the nine-month period ended September 30, 2019 (2018 - $4.1 million). The expense is included in selling, general and administrative expense and has a corresponding liability included in trade and other payables. There were 3,636,199 RAs and PAs outstanding as at September 30, 2019 (2018 – 3,636,328).

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

	2019	2018
RAs and PAs outstanding, beginning of year	**3,443,456**	2,103,040
Granted	**1,622,897**	2,467,589
Settled	**(1,399,485)**	(765,759)
Forfeited / cancelled	**(30,669)**	(168,542)
RAs and PAs outstanding, end of year	**3,636,199**	3,636,328

d) Normal Course Issuer Bid

During the third quarter of 2019, the Toronto Stock Exchange ("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 3,280,889 common shares, representing 10 percent of the Corporation's public float of Common Shares as at July 31, 2019. The NCIB commenced on August 9, 2019 and will terminate on August 8, 2020. 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, in the third quarter of 2019 801,600 common shares were purchased by the Corporation and cancelled.

The Corporation's previous NCIB commenced on August 8, 2018 and terminated on August 7, 2019. Pursuant to the previous NCIB, 357,500 common shares were purchased by the Corporation in the second half of 2018 and cancelled, and in 2019, the Corporation purchased and cancelled 2,237,800 common shares. In total, pursuant to the previous NCIB 2,595,300 common shares have been purchased and cancelled by the Corporation.

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2019	2018	**2019**	2018
Net gain on disposition of drilling equipment	**(514)**	(2,358)	**(3,390)**	(6,209)
Foreign exchange losses (gains)	**44**	(86)	**557**	(304)
Provision for (Recovery of) bad debts	**62**	(8)	**388**	(15)
Other expenses (income)	**(408)**	(2,452)	**(2,445)**	(6,528)

10. Fair Values of Financial Instruments

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

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Judith Athaide

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Daniel Blanchard
Vice President Executive Sales

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta