PHX
ENERGY SERVICES CORP.

Q2 2022

Financial Statements & Notes

Condensed Consolidated Statements of Financial Position

(unaudited)

		June 30, 2022		December 31, 2021 *(Adjusted - Note 8f)*
ASSETS				
Current assets:				
Cash and cash equivalents	$	**17,971,334**	$	24,828,830
Trade and other receivables		**96,152,034**		76,478,093
Inventories		**47,492,571**		36,691,141
Prepaid expenses		**4,587,966**		2,814,272
Current tax assets		**354,756**		346,554
Total current assets		**166,558,661**		141,158,890
Non-current assets:				
Drilling and other long-term assets (Note 6)		**93,597,375**		76,363,001
Right-of-use asset		**24,822,151**		25,708,177
Intangible assets		**15,833,846**		16,137,024
Investments		**3,000,500**		3,000,500
Deferred tax assets		**311,589**		126,133
Total non-current assets		**137,565,461**		121,334,835
Total assets	$	**304,124,122**	$	262,493,725
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Trade and other payables	$	**84,313,427**	$	77,571,887
Lease liability		**2,770,862**		3,232,503
Dividends payable (Note 8d)		**3,796,793**		2,482,060
Total current liabilities		**90,881,082**		83,286,450
Non-current liabilities:				
Lease liability		**32,214,382**		32,638,819
Loans and borrowings (Note 7)		**20,107,992**		-
Deferred tax liability		**12,669,815**		9,346,426
Other (Note 8f)		**1,783,812**		2,789,786
Total non-current liabilities		**66,776,001**		44,775,031
Equity:				
Share capital (Note 8a)		**248,949,605**		235,463,414
Contributed surplus		**7,117,440**		9,462,091
Deficit		**(133,214,072)**		(121,721,790)
Accumulated other comprehensive income		**23,614,066**		11,228,529
Total equity		**146,467,039**		134,432,244
Total liabilities and equity	$	**304,124,122**	$	262,493,725

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2022	2021	**2022**	2021
Revenue	**$ 126,237,557**	$ 75,765,208	**$ 235,568,256**	$ 144,311,945
Direct costs	**100,520,480**	59,436,713	**192,466,162**	113,952,764
Gross profit	**25,717,077**	16,328,495	**43,102,094**	30,359,181
Expenses:				
Selling, general and administrative expenses	**11,836,064**	10,629,415	**33,947,420**	19,611,825
Research and development expenses	**873,207**	624,447	**1,629,766**	1,184,548
Finance expense	**262,188**	94,007	**373,984**	265,232
Finance expense lease liability	**501,385**	534,208	**1,008,401**	1,082,682
Other income (Note 9)	**(3,508,490)**	(1,686,926)	**(7,077,881)**	(4,505,598)
	9,964,354	10,195,151	**29,881,690**	17,638,689
Earnings from continuing operations before income taxes	**15,752,723**	6,133,344	**13,220,404**	12,720,492
Provision for (recovery of) income taxes				
Current	**(13,775)**	11,619	**(229,272)**	20,453
Deferred	**2,948,037**	1,675,191	**2,946,091**	2,918,648
	2,934,262	1,686,810	**2,716,819**	2,939,101
Earnings from continuing operations	**12,818,461**	4,446,534	**10,503,585**	9,781,391
Discontinued operations				
Net loss from discontinued operations, net of taxes (Note 4)	**(12,649,964)**	(67,656)	**(14,558,032)**	(537,493)
Net earnings (loss)	**168,497**	4,378,878	**(4,054,447)**	9,243,898
Other comprehensive income (loss)				
Foreign currency translation	**4,144,053**	(987,617)	**1,824,583**	(2,168,988)
Total comprehensive income (loss) for the period	**$ 4,312,550**	$ 3,391,261	**$ (2,229,864)**	$ 7,074,910
Earnings (loss) per share – basic and diluted				
Continuing operations	**$ 0.25**	$ 0.08	**$ 0.21**	$ 0.19
Discontinued operations	**$ (0.25)**	$ -	**$ (0.29)**	$ (0.01)
Net earnings (loss)	**$ -**	$ 0.08	**$ (0.08)**	$ 0.18

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

Six-month period ended June 30, 2022	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance, December 31, 2021	**47,978,662**	**$ 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 loss	**-**	**-**	**-**	**-**	**(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 4)	**-**	**-**	**-**	**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**

Six-month period ended June 30, 2021	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance, December 31, 2020	50,625,920	$ 247,543,263	$ 10,131,786	$ 11,296,987	$ (136,939,398)	$ 132,032,638
Issuance of share capital on exercise of options	225,267	395,271	-	-	-	395,271
Common shares repurchased and cancelled	(460,888)	(1,204,133)	-	-	-	(1,204,133)
Common shares purchased and held in trust	(786,539)	(3,316,171)	-	-	-	(3,316,171)
Share-based payments	-	-	218,318	-	-	218,318
Fair value of options exercised	-	231,614	(231,614)	-	-	-
Net earnings	-	-	-	-	9,243,898	9,243,898
Foreign currency translation, net of tax	-	-	-	(2,168,988)	-	(2,168,988)
Dividends	-	-	-	-	(2,519,515)	(2,519,515)
Balance, June 30, 2021	49,603,760	$ 243,649,844	$ 10,118,490	$ 9,127,999	$ (130,215,015)	$ 132,681,318

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,	
	2022	2021	**2022**	2021
Cash flows from operating activities:				
Earnings from continuing operations	**$ 12,818,461**	$ 4,446,534	**$ 10,503,585**	$ 9,781,391
Adjustments for:				
Depreciation and amortization	**7,822,953**	6,277,011	**15,099,473**	12,509,160
Depreciation and amortization right-of-use asset	**848,681**	825,454	**1,684,727**	1,661,353
Provision for income taxes	**2,934,262**	1,686,810	**2,716,819**	2,939,101
Unrealized foreign exchange loss (gain)	**(27,999)**	140,177	**(118,526)**	188,816
Gain on disposition of drilling equipment	**(3,059,873)**	(1,483,034)	**(6,641,623)**	(4,302,196)
Equity-settled share-based payments	**(74,706)**	149,817	**260,008**	218,318
Finance expense	**262,188**	94,007	**373,984**	265,232
Recovery of bad debts	**-**	(264,623)	**-**	(264,623)
Provision for inventory obsolescence	**297,639**	426,538	**824,656**	1,105,881
Interest paid	**(127,248)**	(47,463)	**(178,171)**	(106,836)
Income taxes received (paid)	**14,880**	(8,097)	**219,130**	(20,316)
Change in non-cash working capital	**(10,259,827)**	(3,398,566)	**(17,003,987)**	(13,601,474)
Continuing operations	**11,449,411**	8,844,565	**7,740,075**	10,373,807
Discontinued operations (Note 4)	**(520,334)**	(472,558)	**(1,254,859)**	(590,149)
Net cash from operating activities	**10,929,077**	8,372,007	**6,485,216**	9,783,658
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**3,883,133**	2,740,941	**9,179,549**	6,525,814
Acquisition of drilling and other equipment	**(15,213,688)**	(10,518,640)	**(33,419,918)**	(17,408,157)
Acquisition of intangible assets	**(206,930)**	-	**(618,205)**	-
Change in non-cash working capital	**(2,924,122)**	2,411,228	**710,890**	4,715,729
Continuing operations	**(14,461,607)**	(5,366,471)	**(24,147,684)**	(6,166,614)
Discontinued operations (Note 4)	**(316,392)**	13,406	**(68,068)**	13,855
Net cash used in investing activities	**(14,777,999)**	(5,353,065)	**(24,215,752)**	(6,152,759)
Cash flows from financing activities:				
Proceeds from loans and borrowings	**16,359,192**	-	**20,107,992**	-
Proceeds from issuance of share capital	**169,666**	-	**1,811,853**	395,271
Dividends paid to shareholders	**(3,790,543)**	(1,259,757)	**(6,272,603)**	(2,525,405)
Purchase of shares held in trust	**(1,500,000)**	(3,316,171)	**(3,500,000)**	(3,316,171)
Payments of lease liability	**(872,923)**	(814,514)	**(1,731,911)**	(1,605,880)
Repurchase of shares under the NCIB	**-**	-	**-**	(1,204,133)
Continuing operations	**10,365,392**	(5,390,442)	**10,415,331**	(8,256,318)
Discontinued operations	**-**	-	**-**	-
Net cash from (used in) financing activities	**10,365,392**	(5,390,442)	**10,415,331**	(8,256,318)
Net increase (decrease) in cash and cash equivalents	**6,516,470**	(2,371,500)	**(7,315,205)**	(4,625,419)
Cash and cash equivalents, beginning of period	**11,283,545**	23,468,419	**24,828,830**	25,745,911
Effect of movements in exchange rates on cash held	**171,319**	(70,872)	**457,709**	(94,445)
Cash and cash equivalents, end of period	**$ 17,971,334**	$ 21,026,047	**$ 17,971,334**	$ 21,026,047

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, 2022 and 2021

In Canadian dollars (unaudited)

1. Reporting Entity

PHX Energy Services Corp. ("PHX Energy" or the "Corporation") is a publicly-traded Corporation listed on the Toronto Stock Exchange ("TSX") under the symbol "PHX". The Corporation's registered office is at Suite 1600, 215 – 9th Avenue SW Calgary, Alberta, Canada.

The Corporation, through its subsidiaries, provides horizontal and directional drilling services to oil and natural gas exploration and development companies in Canada, United States, Albania, and the Middle East regions. The Middle East region operates through an arrangement with National Energy Services Reunited Corp. The Corporation also develops and manufactures technologies that are made available for internal operational use.

The condensed consolidated interim financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation has presented its operations in Russia as a discontinued operation (see Note 4).

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended December 31, 2021.

These condensed consolidated interim financial statements were authorized by the Board of Directors on August 9, 2022.

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 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, 2021.

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, 2021, unless specified.

4. Discontinued Operations

a) Impairment and Other Write-Offs of Russian Assets

In the first quarter of 2022, the Corporation determined the Russian operations to be in its own cash-generating unit ("CGU") due to a divergence in its overall risk profile from the rest of the International CGU. Concurrently, PHX Energy recognized:

- Impairment loss of approximately $0.4 million on drilling and other equipment owned by the Russian operations, Phoenix TSR LLC ("Phoenix TSR");
- Write-offs of $0.6 million related to inventories owned by the Russian operations; and,
- Expected credit losses of $1 million related to certain trade receivables owned by Phoenix TSR.

b) Discontinued Operations and Loss on Disposition

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.

		June 30, 2022
Consideration on sale of Phoenix TSR, satisfied in cash	**$**	**404**
Less net assets of Phoenix TSR comprised of working capital:		**(3,496,576)**
Loss on disposition of Phoenix TSR	**$**	**(3,496,172)**

The divested Russian division met the criteria for discontinued operations in the second quarter of 2022.

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

	Three-month period ended June 30,				Six-month period ended June 30,			
		2022		2021		**2022**		2021
Revenue	**$**	**4,647,656**	$	2,072,857	**$**	**7,443,368**	$	3,631,911
Expenses		**(3,071,762)**		2,140,513		**(5,781,276)**		4,170,483
		1,575,894		(67,656)		**1,662,092**		(538,572)
Reclassification of foreign currency translation loss on disposition of Phoenix TSR		**(10,560,954)**		-		**(10,560,954)**		-
Loss on disposition of Phoenix TSR		**(3,496,172)**		-		**(3,496,172)**		-
Impairment and other write-offs		**-**		-		**(1,966,848)**		-
Loss from discontinued operations		**(12,481,232)**		(67,656)		**(14,361,882)**		(538,572)
Income tax from discontinued operations		**168,732**		-		**196,150**		(1,079)
Loss from discontinued operations, net of taxes	**$**	**(12,649,964)**	$	(67,656)	**$**	**(14,558,032)**	$	(537,493)

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,		Six-month period ended June 30,	
	2022	2021	**2022**	2021
Net loss from discontinued operations, net of taxes	**$ (12,649,964)**	$ (67,656)	**$ (14,558,032)**	$ (537,493)
Addback (deduct):				
Depreciation and amortization	**-**	-	**136,024**	-
Provision for income taxes	**168,732**	-	**196,150**	(1,079)
Unrealized foreign exchange (gain) loss	**(83,816)**	1,755	**(56,497)**	7,576
Interest and taxes received (paid), net	**(3,110)**	(3,172)	**(3,316)**	3,778
Loss (gain) on disposition of drilling equipment	**316,392**	(5,273)	**68,068**	(5,722)
Finance expense	**2,004**	3,154	**3,316**	(3,915)
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	**10,560,954**	-	**10,560,954**	-
Impairment and other write-offs	**-**	-	**1,966,848**	-
Loss on disposition of Phoenix TSR	**3,496,172**	-	**3,496,172**	-
Change in non-cash working capital	**(2,327,698)**	(401,366)	**(3,064,546)**	(53,294)
Cash used in operating activities	**$ (520,334)**	$ (472,558)	**$ (1,254,859)**	$ (590,149)

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

5. Operating Segments

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

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Three-month periods ended June 30,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Total Revenue	**19,704**	10,250	**105,367**	65,515	**1,167**	-	**126,238**	75,765
Reportable segment profit (loss) before income taxes	**(16)**	224	**16,885**	11,272	**523**	(471)	**17,392**	11,025

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Six-month periods ended June 30,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Total Revenue	**46,843**	25,697	**187,162**	118,615	**1,563**	-	**235,568**	144,312
Reportable segment profit (loss) before income taxes	**3,450**	2,549	**23,331**	18,494	**361**	(798)	**27,142**	20,245

(Stated in thousands of dollars)

	Canada		United States[1]		International		Total	
As at June 30,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Drilling and other equipment	**18,216**	13,030	**74,856**	57,608	**525**	426	**93,597**	71,064

[1] June 30, 2022 includes USD $1.5 million of drilling and other equipment physically located in the Middle East region as part of a technology arrangement (2021 – USD $2 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,	
	2022	2021	**2022**	2021
Reportable segment income before income taxes	**17,392**	11,025	**27,142**	20,245
Corporate:				
Selling, general and administrative expenses	**3,511**	5,327	**17,988**	9,498
Research and development expenses	**873**	624	**1,630**	1,185
Finance expense	**262**	94	**374**	265
Finance expense lease liability	**501**	534	**1,008**	1,083
Other income	**(3,508)**	(1,687)	**(7,078)**	(4,506)
Earnings from continuing operations before income taxes	**15,753**	6,133	**13,220**	12,720

6. Drilling and Other Equipment

a) Acquisitions and Disposals

During the six-month period ended June 30, 2022, the Corporation acquired assets with a cost of $33.4 million (2021 - $17.4 million).

Assets with a carrying amount of $2.5 million (2021 - $2.2 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $6.6 million (2021 - $4.3 million), which is included in other income in the condensed consolidated statement of comprehensive income (loss).

b) Capital Commitments

As at June 30, 2022, the Corporation has commitments to purchase drilling and other equipment for $47.2 million with delivery expected to occur throughout the 2022 year and into early 2023.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at June 30, 2022**	Currency	Carrying Amount at December 31, 2021
Operating Facility	CAD	15,000	December 12, 2023	CAD	**9,108**	CAD	-
Syndicated Facility	CAD	50,000	December 12, 2023	CAD	**11,000**	CAD	-
US Operating Facility	USD	15,000	December 12, 2023	USD	**-**	USD	-

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at June 30, 2022 the Corporation was in compliance with all of its financial covenants as follows:

Ratio	Covenant	**June 30, 2022**
Debt to covenant EBITDA	< 3.0x	**0.36**
Interest coverage ratio	> 3.0x	**90.80**

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, 2022 the Corporation has approximately CAD $45 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, 2021	50,625,920	$	247,543,263
Common shares repurchased and cancelled	(1,960,788)		(7,979,601)
Common shares repurchased and held in trust	(1,662,537)		(7,500,000)
Issued shares pursuant to share option plan	976,067		3,399,752
Balance as at December 31, 2021	47,978,662	$	235,463,414
Common shares repurchased and held in trust	**(555,300)**		**(3,500,000)**
Issued shares pursuant to retention awards plan	**1,972,007**		**12,569,679**
Issued shares pursuant to share option plan	**982,705**		**4,416,512**
Balance as at June 30, 2022	**50,378,074**	**$**	**248,949,605**

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.

<u>Summary of option grants in 2022</u>

Number		Exercise Price	Expiration Date		Fair Value
150,000	$	6.08	March 4, 2027	$	1.91
100,000		6.16	March 4, 2027		1.89
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 2022 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 4.89 percent and a risk-free interest rate of 1.4 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 six-month period ended June 30, 2022, a total of 1,047,800 options granted in 2017 were net equity-settled through the issuance of 342,972 common shares. Total compensation expense related to stock options recognized for the three and six-month periods ended June 30, 2022 were $0.1 million recovery and $0.3 million, respectively (2021 - $0.1 million and $0.2 million, respectively).

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

	June 30, 2022		December 31, 2021	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**2,854,200**	**$ 3.15**	3,345,267	$ 3.01
Granted	**250,000**	**6.11**	500,000	2.70
Exercised	**(1,687,533)**	**3.60**	(976,067)	2.40
Forfeited / cancelled	**-**	**-**	(15,000)	4.15
Outstanding, end of period	**1,416,667**	**3.14**	2,854,200	3.15
Options exercisable, end of period	**749,997**	**2.45**	2,437,530	3.25

The range of exercise prices for options outstanding at June 30, 2022 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	0.69 yrs	1.95	50,000	1.95
150,000	0.69 yrs	2.00	150,000	2.00
66,667	2.68 yrs	2.09	33,333	2.09
150,000	2.68 yrs	2.19	99,999	2.19
200,000	3.68 yrs	2.64	66,666	2.64
300,000	3.68 yrs	2.74	99,999	2.74
200,000	1.69 yrs	2.81	200,000	2.81
50,000	1.69 yrs	2.83	50,000	2.83
150,000	4.68 yrs	6.08	-	6.08
100,000	4.68 yrs	6.16	-	6.16
1,416,667	2.93 yrs	$ 3.14	749,997	$ 2.45

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 receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired 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, 2022, the trustee purchased 555,300 common shares (2021 – 786,539) for a total cost of $3.5 million (2021 - $3.3 million) and released 1,972,007 common shares (2021 – nil) to settle retention award obligations of $12.6 million (2021 - $nil). As at June 30, 2022, the Corporation held 245,830 common shares in trust (2021 – 786,539). 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, 2022, 750,000 PAs were granted (2021 – 750,000), 774,152 PAs settled at a weighted average payout multiplier of 200 percent (2021 – 757,184), no PAs were forfeited (2021 - nil), and as at June 30, 2022, 1,538,504 PAs were outstanding (2021 – 1,507,184).

The Corporation recorded a total of $12.5 million compensation expense relating to these plans for the six-month period ended June 30, 2022 (2021 – $6.5 million). The expense is included in selling, general and administrative expense and has a corresponding liability in trade and other payables for the current portion and other liabilities for the long-term portion. There were 3,425,196 RAs and PAs outstanding as at June 30, 2022 (2021 – 3,356,736).

A summary of the status of the plan as at June 30, 2022 is presented below:

	June 30, 2022	December 31, 2021
RAs and PAs outstanding, beginning of period	**3,267,579**	3,487,297
Granted	**1,609,299**	1,666,514
Settled	**(1,451,682)**	(1,808,415)
Forfeited / cancelled	**-**	(77,817)
RAs and PAs outstanding, end of period	**3,425,196**	3,267,579

d) Dividends

On June 15, 2022, the Corporation declared a dividend of $0.075 per share or $3.8 million payable on July 15, 2022.

e) Normal Course Issuer Bid

During the third quarter of 2021, 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 3,679,797 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 6, 2021. The NCIB commenced on August 16, 2021 and will terminate on August 15, 2022. 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, 1,499,900 common shares were purchased by the Corporation and cancelled as at December 31, 2021. For the six-month period ending June 30, 2022, the Corporation did not repurchase shares through its current NCIB.

The Corporation's previous NCIB commenced on August 14, 2020 and terminated on August 13, 2021. Pursuant to the previous NCIB, 3,131,388 common shares were repurchased and cancelled by the Corporation of which 460,888 were repurchased and cancelled in 2021.

f) Prior Period Adjustment

The Corporation identified that the classification of the cash-settled liability awards between current and long-term liabilities was not correct as at December 31, 2021. As a result, the Corporation adjusted the December 31, 2021 statement of financial position to reclassify $2.8 million of liabilities from current (trade and other payables) to long-term (other non-current liabilities).

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2022	2021	**2022**	2021
Net gain on disposition of drilling equipment	**(3,060)**	(1,483)	**(6,642)**	(4,302)
Foreign exchange losses	**64**	61	**76**	61
Recovery of bad debts	**-**	(265)	**-**	(265)
Other	**(512)**	-	**(512)**	-
Other income	**(3,508)**	(1,687)	**(7,078)**	(4,506)

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 approximate their fair value due to the relatively short periods to maturity of the instruments.

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

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Karen David-Green

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta