2023 Third Quarter Report

PHX
ENERGY SERVICES CORP.

Management's Discussion and Analysis

Third Quarter Report for the three and nine-month periods ended September 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 third 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 third 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 November 7, 2023.

PHX Energy's Interim Financial Report for the three and nine-month periods ended September 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 November 7, 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.

Third Quarter Highlights

- For the three-month period ended September 30, 2023, PHX Energy generated consolidated revenue of $169.4 million, the highest level of quarterly revenue in the Corporation's history. With the first quarter of 2023 being the second highest level on record, the 2023-year is tracking to be a record year for PHX Energy. Consolidated revenue in the 2023-quarter included $11.9 million of motor rental revenue and $6.2 million of motor equipment and parts sold.

- Earnings from continuing operations, adjusted EBITDA(1) from continuing operations, and adjusted EBITDA as a percentage of consolidated revenue are the best level of quarterly results on record. Earnings from continuing operations increased to $24.9 million ($0.50 per share), an increase of 85 percent over the third quarter of 2022, and adjusted EBITDA from continuing operations increased to $43.5 million ($0.88 per share), which represented 26 percent of consolidated revenue(1). Included in the 2023-quarter's adjusted EBITDA is $5 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations(1) in the third quarter of 2023 was $48.5 million, 29 percent of consolidated revenue(1).

- PHX Energy's US division revenue in the third quarter of 2023 was $123.8 million, 12 percent higher than the third quarter of 2022 and represented 73 percent of consolidated revenue. This level of revenue is only 1 percent less than the record achieved by the US segment in the fourth quarter of 2022.

(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 $44.4 million of quarterly revenue which is the highest level since the fourth quarter of 2014.
- In light of the continued strong demand for the Corporation's premium technologies, the Board approved to increase the 2023 capital expenditure budget to $80 million from the previous $61.5 million. The Board also approved a preliminary 2024 capital expenditure budget of $70 million.
- As at September 30, 2023, the Corporation had working capital(2) of $101.3 million and net debt(2) of $3.5 million.
- In November 2023, the Corporation increased the borrowing amounts in the syndicated facility from CAD $50 million to CAD $80 million and in the US operating facility from USD $15 million to USD $20 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2026. With the increased borrowing amounts, the Corporation has approximately CAD $76.5 million and USD $20 million available to be drawn from its credit facilities. Currently, debt levels are low and this increase is intended to provide PHX Energy flexibility to take advantage of lucrative opportunities when presented in the future.
- In the 2023 three-month period, the Corporation generated excess cash flow(2) of $25.7 million, after deducting capital expenditures of $18.8 million offset by proceeds on disposition of drilling and other equipment of $11.7 million.
- During the 2023-quarter, PHX Energy continued to deliver additional returns to shareholders through its previous and current NCIB, purchasing and cancelling 2,442,700 common shares for $17.5 million. In the 2023 nine-month period, the Corporation purchased and cancelled 2,710,500 common shares for $19.1 million.
- For the three-month period ended September 30, 2023, PHX Energy paid $7.6 million in dividends which is double the dividend amount paid in the same 2022-period. On September 15, 2023, the Corporation declared a dividend of $0.15 per share(3) or $7.3 million, paid on October 16, 2023 to shareholders of record on September 30, 2023.
- With three consecutive quarters of strong financial performance, the Board has approved an increase to the quarterly dividend to $0.20 per share effective for the dividend payable to shareholders of record at the close of business on December 31, 2023. This is 33 percent higher than the dividend declared on September 15, 2023 and the fifth dividend increase since the dividend program was reinstated in December 2020.

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Financial Highlights

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Operating Results – Continuing Operations	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**169,368**	142,418	19	**491,008**	377,987	30
Earnings	**24,921**	13,475	85	**65,447**	23,978	173
Earnings per share – diluted	**0.50**	0.27	85	**1.28**	0.48	167
Adjusted EBITDA (1)	**43,524**	27,315	59	**115,330**	58,845	96
Adjusted EBITDA per share – diluted (1)	**0.88**	0.53	66	**2.17**	1.16	87
Adjusted EBITDA as a percentage of revenue (1)	**26%**	19%		**23%**	16%	
Cash Flow – Continuing Operations						
Cash flows from (used in) operating activities	**33,628**	21,627	55	**59,969**	29,367	104
Funds from operations (2)	**34,166**	22,711	50	**91,150**	47,413	92
Funds from operations per share – diluted (3)	**0.69**	0.44	57	**1.71**	0.94	82
Dividends paid per share (3)	**0.15**	0.075	100	**0.45**	0.200	125
Dividends paid	**7,621**	3,797	101	**22,913**	10,069	128
Capital expenditures	**18,804**	18,631	1	**49,458**	52,051	(5)
Excess cash flow (2)	**25,724**	9,121	182	**70,465**	6,843	n.m.
Financial Position				**Sep 30 '23**	Dec 31 '22	
Working capital (2)				**101,271**	94,339	7
Net debt (2)				**3,457**	4,484	(23)
Shareholders' equity				**201,043**	176,878	14
Common shares outstanding				**48,508,438**	50,896,175	(5)

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 excluding cash-settled share-based compensation expense, 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, working capital, and remaining distributable balance under ROCS. 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 third quarter we continued to build off the strong momentum we have achieved thus far in 2023, setting all-time records for quarterly revenue, earnings, adjusted EBITDA, and adjusted EBITDA as a percentage of consolidated revenue.

- Despite the lower US rig count impacting our directional drilling activity levels, we have continued to produce strong results, maintain market share and work for 12 of the top 15 US operators. The primary drivers of these successes were our technology offering, particularly our rotary steerable ("RSS") capabilities, and expansion of our Atlas rental and sales divisions. We foresee further growth in both areas for the remainder of 2023 and into 2024 and are directing the new capital expenditures announced towards these objectives.
- We recently added a second brand of RSS technology to our US fleet. The iCruise technology developed by Halliburton will compliment our fleet of Schlumberger PowerDrive Orbit RSS technology and we are uniquely positioned as the only provider in North America that can offer two superior RSS options for owned systems. Additionally, our Engineering group has commercialized supplementary technologies that work in conjunction with our RSS and Velocity fleets that are already in high demand. Both of these technology developments will continue to differentiate us and further solidify our reputation as a technology leader.

- In Canada, our marketing team has successfully expanded our client base and our results show improved activity and revenue in a slightly slower to flat industry. We expect current activity levels to continue for the remainder of the year and into the first quarter of 2024. We may see some incremental increases in revenue per day as a result of the commercialization of new value added technologies that supplement the premium fleet and the planned fleet expansion.
- We will continue to execute on the strategic objective aimed at expanding our Atlas sales and rental businesses, which allows us to penetrate the portion of the US market that is not accessible through our full service offering. The rental division has shown promising growth thus far in 2023 and we anticipate that it will continue to generate a similar level of activity and revenue in the near-term. Additionally, the revenue from the sale of Atlas motors aided the US division in achieving strong revenue and profitability in the quarter. Over the next few quarters, we will look to expand our infrastructure to drive further growth and we plan to dedicate a portion of the Atlas motors acquired through the 2024 capital expenditures program to the rental business.
- During the quarter, the Corporation continued to deliver on its commitment to our Return of Capital Strategy ("ROCS") and leveraged our renewed NCIB to further reduce the shares outstanding. We have bought back 21 percent of our shares since 2017, including the purchase and cancellation of 2.7 million shares through the NCIBs thus far in 2023. Through our dividend we have paid $44 million to shareholders since reinstating the program in December 2020 and due to our strong performance and outlook the Board has approved the fifth increase to our dividend since its re-instatement. Effective for the dividend payable to shareholders of record at the close of business on December 31, 2023 a quarterly dividend to $0.20 per share will be payable, a 33 percent increase over the current dividend.

Global concerns around the possibility of a recession in North America, issues surrounding the economy in China plus regional conflicts in Europe and the Middle East provide a backdrop of uncertainty for the near to mid-term. Despite this, we are optimistic that our operating and financial performance will remain strong through the deployment of our premium fleet of technology, particularly RSS. We will remain diligent with protecting our balance sheet and deliver on our commitment to continue to reward our shareholders.

Michael Buker, President
November 7, 2023

Financial Results

In the third quarter of 2023, PHX Energy generated an all-time record level of revenue, earnings from continuing operations, adjusted EBITDA from continuing operations, and adjusted EBITDA as a percentage of consolidated revenue.

For the three-month period ended September 30, 2023, PHX Energy's consolidated revenue was $169.4 million as compared to $142.4 million in the same 2022-period, an increase of 19 percent. Despite the declining North American rig count, the Corporation achieved higher revenue by leveraging the increased capacity in its premium technology fleets and its strong reputation and operations expertise. In addition, the Corporation's strong activity in Canada and growth in its US motor rental and sales divisions contributed to the record revenue achieved in the quarter.

In the 2023-quarter, the US rig count continued to soften. PHX Energy's US operating days decreased by 13 percent from 4,653 in the third quarter of 2022 to 4,050 in the third quarter of 2023. Despite the decline in activity, the Corporation's US division's revenue grew by 12 percent to $123.8 million as compared to $110.2 million in the same 2022-period. In the 2023 three-month period, RSS services accounted for a larger percentage of the division's activity and this growth was a primary driver of the 17 percent improvement in the average revenue per day(3) for directional drilling services quarter-over-quarter. Additionally, the Corporation's US motor rental and sales divisions generated $11.6 million and $6.2 million of revenue, respectively in the third quarter of 2023 (2022-quarter - $7.4 million and nil, respectively). Revenue from PHX Energy's US segment represented 73 percent of consolidated revenue in the 2023 three-month period (2022-quarter – 77 percent).

In the 2023 three-month period, the Corporation's Canadian division generated revenue of $44.4 million, which is the highest level since the fourth quarter of 2014 and is 43 percent greater than the $31 million generated in the same 2022-period. During the 2023-quarter, despite a quarter-over-quarter decline in Canadian industry activity, PHX Energy's Canadian operating days grew by 16 percent to 3,301 days from the 2,835 operating days in the comparable 2022-quarter. Average revenue per day realized by the Canadian segment also improved by 22 percent over the third quarter of 2022.

For the three-month period ended September 30, 2023, earnings from continuing operations was $24.9 million (2022 - $13.5 million) and adjusted EBITDA from continuing operations(1) was $43.5 million (2022 - $27.3 million), 26 percent of consolidated revenue. These levels of earnings from continuing operations, adjusted EBITDA from continuing operations, and adjusted EBITDA as a percentage of consolidated revenue, are the best quarterly results in the Corporation's history. Higher margins

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generated from PHX Energy's premium technologies, Atlas motor rentals, and the sale of Atlas motors and parts primarily drove these record results. Included in the 2023 three-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $5 million (2022 - $5.2 million). For the three-month period ended September 30, 2023, excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations(1) is $48.5 million, 29 percent of consolidated revenue (2022 - $32.5 million).

PHX Energy maintained its strong financial position and had working capital(2) of $101.3 million and net debt(2) of $3.5 million with available credit facilities in excess of $61.5 million as at September 30, 2023.

In November 2023, the Corporation increased the borrowing amounts in the syndicated facility from CAD $50 million to CAD $80 million and in the US operating facility from USD $15 million to USD $20 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2026. With the increased borrowing amounts, the Corporation has approximately CAD $76.5 million and USD $20 million available to be drawn from its credit facilities.

Dividends and ROCS

On September 15, 2023, the Corporation declared a dividend of $0.15 per share payable to shareholders of record at the close of business on September 30, 2023. An aggregate of $7.3 million was paid on October 16, 2023. This is 50 percent higher than the dividend of $0.10 per share declared in the 2022-quarter.

In November 2023, the Board approved an increase to the quarterly dividend to $0.20 per share effective for the dividend payable to shareholders of record at the close of business on December 31, 2023. This is 33 percent higher than the dividend declared on September 15, 2023 and the fifth dividend increase since the dividend program was reinstated in December 2020.

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

During the third quarter of 2023, the TSX approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,552,810 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 2, 2023. The NCIB commenced on August 16, 2023 and will terminate on August 15, 2024. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems.

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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 previous and current NCIB, 2,442,700 common shares were purchased by the Corporation for $17.5 million and cancelled in the third quarter of 2023. In the 2023 nine-month period, PHX Energy purchased and cancelled 2,710,500 common shares for $19.1 million.

Capital Spending

In the third quarter of 2023, the Corporation spent $18.8 million in capital expenditures, of which $12.5 million was spent on growing the Corporation's fleet of drilling equipment, $2.8 million was spent to replace retired assets, and $3.5 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $11.7 million, the Corporation's net capital expenditures(2) for the 2023-quarter were $7.1 million. Capital expenditures in the 2023-quarter were primarily directed towards Atlas High Performance motors ("Atlas"), Velocity Real-Time systems ("Velocity"), and 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 September 30, 2023	Nine-month period ended September 30, 2023
Growth capital expenditures	**12,471**	**27,356**
Maintenance capital expenditures from asset retirements	**2,825**	**11,543**
Maintenance capital expenditures from downhole equipment losses	**3,508**	**10,559**
	18,804	**49,458**
Deduct:		
Proceeds on disposition of drilling equipment	**(11,682)**	**(32,689)**
Net capital expenditures(2)	**7,122**	**16,769**

In light of the continued strong demand for the Corporation's premium technologies, the approved capital expenditure budget for the 2023-year, excluding proceeds on disposition of drilling equipment, was increased to $80 million from the previous $61.5 million. The increase of $18.5 million in the 2023 capital expenditure budget will be directed mainly towards growing and maintaining PHX Energy's RSS and Atlas motor fleets. Of the total expenditures, $45 million is expected to be allocated to growth capital and the remaining $35 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.

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As at September 30, 2023, the Corporation has capital commitments to purchase drilling and other equipment for $33.8 million, $20.3 million of which is growth capital and includes $19.4 million for performance drilling motors and $0.9 million for other equipment. Equipment on order as at September 30, 2023 is expected to be delivered within 2023 and the first quarter of 2024.

With the outlook that the Corporation's 2023-momenteum will continue into the upcoming year and that the declining rig counts in North America will level off, the Board has approved a preliminary 2024 capital expenditure program of $70 million, of which $42 million is anticipated to be spent on growth. The growth capital expenditures are expected to be allocated towards: building larger fleets of recently commercialized supplementary technologies that create value added capabilities within the premium fleet and are already in high demand; additional motor capacity to grow the Atlas rental division; and add required Velocity systems, RSS and Atlas motors to continue to meet demand for full service operations. The remaining $28 million is anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations.

The Corporation currently possesses approximately 734 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, and 118 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 54 RSS tools and the only fleet currently comprised of both the PowerDrive Orbit and iCruise systems.

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. Subsequently on July 27, 2023, PHX Energy agreed upon the sale and licensed use of its Atlas motors to an existing international client. Under these agreements, the purchasers must exclusively use components manufactured by the Corporation for the maintenance of their fleets of Atlas motors. As of September 30, 2023, $10.1 million of motors and parts were sold. PHX Energy anticipates ongoing orders for parts and the purchasers could potentially place subsequent orders for additional Atlas motors late in 2023 and through the upcoming year.

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 an administrative office in Nicosia, Cyprus. The Corporation also supplies technology to the Middle East regions.

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

Results of Operations

Three and Nine-Month Periods Ended September 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.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**151,241**	134,725	12	**448,302**	358,244	25
Motor rental	**11,919**	7,693	55	**32,588**	19,743	65
Sale of motor equipment and parts	**6,208**	-	n.m.	**10,118**	-	n.m.
Total revenue	**169,368**	142,418	19	**491,008**	377,987	30

n.m. – not meaningful

In the third quarter of 2023, PHX Energy generated its highest level of quarterly revenue on record, surpassing the previous records set in the first quarter of 2023. For the three-month period ended September 30, 2023, the Corporation's consolidated revenue was $169.4 million, a 19 percent increase compared to the $142.4 million in the third quarter of 2022. For the nine-month period ended September 30, 2023, the Corporation generated consolidated revenue of $491 million, an increase of 30 percent as compared to the $378 million generated in the same 2022-period.

Average consolidated revenue per day[(3)] increased 13 percent to $20,343 in the 2023 three-month period from $18,008 in the same 2022-period and in the 2023 nine-month period increased 17 percent to $20,457 from $17,421 in the same 2022-period. In both 2023-periods, PHX Energy increased capacity and utilization in its fleet of premium technologies, particularly additional RSS systems that were acquired in the fourth quarter of 2022, and this, along with the cumulative impact of previous pricing increases to mitigate the effects of inflationary costs, greatly contributed to the stronger average consolidated revenue per day[(3)] realized in both periods. The favorable impact of the strong US dollar also supported the increases in average consolidated revenue per day.

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The US industry rig count continued to soften in the third quarter of 2023, averaging 632 horizontal and directional rigs operating per day, which is a 14 percent decrease from the average of 733 rigs in the third quarter of 2022 and 10 percent lower compared to the average of 700 rigs in the second quarter of 2023. In Canada, the average rig count for the 2023 three-month period decreased 6 percent to 188 rigs from 199 rigs in the third 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 slightly decreased by 2 percent to 7,435 days in the third quarter of 2023 compared to 7,578 days in the same 2022-quarter. For the nine-month period ended September 30, 2023, consolidated operating days increased by 5 percent to 21,915 from 20,859 days in the corresponding 2022-period.

Throughout 2023, the Corporation continued to increase capacity in its Atlas motor fleet and as a result, in the 2023 three and nine-month periods, revenue generated from PHX Energy's motor rental division grew by 55 percent and 65 percent, respectively. Motor rental revenue increased to $11.9 million in the 2023 three-month period from $7.7 million in the same 2022-period and increased to $32.6 million in the 2023 nine-month period from $19.7 million in the same 2022-period. PHX Energy remains focused on marketing Atlas technology as a stand-alone product line. With additional Atlas motors on order, the Corporation expects this business line to continue to grow in future periods.

For the three and nine-month periods ended September 30, 2023, revenue of $6.2 million and $10.1 million, respectively, were generated from the sale of Atlas motors and parts under PHX Energy's two existing sales agreements. As the Corporation continues to support its customers' owned fleet of Atlas motors, a steady stream of revenue is expected to continue for this business line.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Direct costs	**125,138**	111,734	12	**376,996**	304,200	24
Depreciation & amortization drilling and other equipment (included in direct costs)	**9,867**	8,143	21	**28,805**	23,243	24
Depreciation & amortization right-of-use asset (included in direct costs)	**822**	745	10	**2,057**	2,430	(15)
Gross profit as a percentage of revenue excluding depreciation & amortization(1)	**32%**	28%		**30%**	26%	

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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 September 30, 2023, direct costs increased by 12 percent to $125.1 million from $111.7 million in the 2022-period. For the 2023 nine-month period, direct costs increased by 24 percent to $377 million from $304.2 million in the same 2022-period.

In both 2023-periods, higher direct costs are partly attributable to greater servicing costs and equipment rental expenses associated with increased RSS activity. Growth in Atlas motor rental activity also resulted in higher motor repairs. In addition, there were greater depreciation and amortization expenses on drilling and other equipment in both 2023-periods due to the volume of fixed assets acquired as part of PHX Energy's 2023 capital expenditure program. The Corporation's depreciation and amortization on drilling and other equipment increased by 21 percent and 24 percent, respectively, in the 2023 three and nine-month periods. Additionally, overall costs related to personnel, repair parts, and equipment rentals increased partly as a result of inflation.

In the 2023 three and nine-month periods, gross profit as a percentage of revenue excluding depreciation and amortization improved to 32 percent and 30 percent, respectively, compared to 28 percent and 26 percent in the corresponding 2022-periods. Greater profitability in both periods was largely driven by the higher margins from the Corporation's premium technologies as well as increased profits from PHX Energy's growing Atlas motor rental and sales divisions. In addition, the Corporation remained diligent in executing various strategies to gain cost efficiencies and mitigate the impact of higher costs caused by inflation and this continued to have a positive impact on the Corporation's margins.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Selling, general and administrative ("SG&A") costs	**19,833**	15,589	27	**50,911**	49,536	3
Cash-settled share-based compensation (included in SG&A costs)	**4,969**	5,178	(4)	**8,899**	17,630	(50)
Equity-settled share-based compensation (included in SG&A costs)	**144**	133	8	**431**	393	10
SG&A costs excluding share-based compensation as a percentage of revenue[(1)]	**9%**	7%		**8%**	8%	

For the three-month period ended September 30, 2023, SG&A costs were $19.8 million, an increase of 27 percent as compared to $15.6 million in the corresponding 2022-period. In the 2023 nine-month period, SG&A costs were $50.9 million, an increase of 3 percent as compared to $49.5 million in the corresponding 2022-period. Higher SG&A costs in both 2023 periods were primarily due to greater costs associated with increasing revenue and activity and rising personnel-related costs.

[(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 nine-month periods ended September 30, 2023, the related compensation expense recognized by PHX Energy was $5 million (2022 - $5.2 million) and $8.9 million (2022 - $17.6 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 2,135,283 retention awards outstanding as at September 30, 2023 (2022 – 3,293,538). Excluding share-based compensation, SG&A costs as a percentage of revenue in the 2023 three and nine-month periods were 9 percent and 8 percent, respectively, as compared to 7 percent and 8 percent in the corresponding 2022 periods.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Research and development expense	**1,246**	909	37	**3,817**	2,539	50

PHX Energy's research and development ("R&D") expenditures for the three and nine-month periods ended September 30, 2023, were $1.2 million (2022 - $0.9 million) and $3.8 million (2022 - $2.5 million), respectively. Higher R&D expenditures in both 2023 periods were mainly due to increased prototype expenses and greater personnel-related costs. The Corporation remained focused on supporting new and ongoing initiatives to continuously improve the reliability of equipment and reduce costs of operations. In addition, new technologies are continually being developed, particularly projects that are critical in sustaining operational growth and create value added capabilities within the premium fleet to further profitability.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Finance expense	**598**	499	20	**1,974**	873	126
Finance expense lease liabilities	**554**	498	11	**1,695**	1,507	12

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three and nine-month periods ended September 30, 2023, finance expenses increased to $0.6 million (2022 - $0.5 million) and $2 million (2022 - $0.9 million), respectively, mainly due to increased drawings on the credit facilities to fund PHX Energy's capital spending. In both 2023 periods, higher finance expenses also resulted from rising variable interest rates on the Corporation's operating and syndicated facilities.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three and nine-month periods ended September 30, 2023, finance expense lease liabilities increased by 11 percent and 12 percent respectively, 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 September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Net gain on disposition of drilling equipment	**8,354**	4,157	**23,903**	10,799
Foreign exchange gains (losses)	**(347)**	(205)	**574**	(281)
Recovery of (provision for) bad debts	**1,106**	2	**(117)**	2
Other	**-**	-	**-**	512
Other income	**9,113**	3,954	**24,360**	11,032

For the three and nine-month periods ended September 30, 2023, the Corporation recognized other income of $9.1 million and $24.4 million, respectively (2022 - $4 million and $11 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 both 2023 periods, a larger percentage of PHX Energy's activity involved utilizing premium technologies, particularly RSS. As a result, 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 for the remainder of 2023 and for 2024.

For the three-month period ended September 30, 2023, the Corporation recognized foreign exchange losses of $0.3 million (2022 - $0.2 million) which primarily resulted from the revaluation of CAD-denominated intercompany receivables in the US. In the 2023 nine-month period, foreign exchange gains of $0.6 million (2022 - $0.3 million foreign exchange losses) was primarily due to the settlement of a USD-denominated receivable as a result of a reorganization in Luxembourg.

In the third quarter of 2023, PHX Energy reversed the amounts previously provisioned for bad debt in the amount of $1.1 million (2022 – $2 thousand recovery) which relates mainly to one client.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Provision for income taxes	**6,191**	3,667	**14,529**	6,384
Effective tax rates(3)	**20%**	21%	**18%**	21%

For the three-month period ended September 30, 2023, the Corporation reported income tax provision of $6.2 million (2022 - $3.7 million), of which, $5.6 million was current and $0.6 million was deferred. For the nine-month period ended September 30, 2023, PHX Energy recognized provision for income taxes of $14.5 million (2022 - $6.4 million), of which, $13.6 million was current and $0.9 million was deferred. Increased current taxes in both 2023 periods mainly resulted from higher taxable income in the US. PHX Energy's effective tax rate was 20 percent in the 2023-quarter and 18 percent in the 2023 nine-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 September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**105,980**	102,806	3	**333,123**	278,440	20
Motor rental	**11,636**	7,422	57	**31,204**	18,950	65
Sale of motor equipment and parts	**6,208**	-	n.m.	**10,118**	-	n.m.
Total US revenue	**123,824**	110,228	12	**374,445**	297,390	26
Reportable segment profit before tax (i)	**25,494**	17,056	49	**65,453**	40,387	62

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

(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 September 30, 2023, total US revenue increased by 12 percent to $123.8 million as compared to $110.2 million in the 2022-quarter. The increase in revenue was primarily driven by increased RSS activity, motor rental growth, and Atlas motor and parts sales, and was achieved despite the slowdown in US industry activity. With three consecutive strong quarters in 2023, US revenue for the nine-month period ended September 30, 2023 increased 26 percent to $374.4 million from $297.4 million in the 2022-period.

Throughout the year, the demand for PHX Energy's premium technologies was robust and with the additional RSS systems added in the fourth quarter of 2022 and third quarter of 2023, RSS services accounted for a larger percentage of the US segment's activity. This greater volume of RSS activity, along with increased capacity and utilization in the Corporation's premium technologies, primarily drove improvements in the US division's average revenue per day[(3)]. For the three-month period ended September 30, 2023, average revenue per day for directional drilling services rose to $26,168 from $22,425 in the third quarter of 2022, a 17 percent increase. In the 2023 nine-month period, average revenue per day for directional drilling services increased 18 percent to $25,173 from $21,324 in the same 2022-period. The strong US dollar in both 2023 periods also supported the increase in the average revenue per day. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services increased by 9 percent and 13 percent, respectively, in the 2023 three and nine-month periods.

In the third quarter of 2023, the Corporation's US directional drilling activity decreased by 13 percent to 4,050 operating days compared to 4,653 days in the third quarter of 2022 and has decreased by 7 percent as compared to the 4,364 days in the second quarter of 2023. In comparison, the US industry horizontal and directional rig count in the third quarter of 2023 decreased 14 percent with 632 active rigs per day as compared to 733 rigs per day in the third quarter of 2022 and decreased by 10 percent when compared to an average of 700 active horizontal and directional rigs per day in the second quarter of 2023. (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, https://rigcount.bakerhughes.com/na-rig-count). For the nine-month period ended September 30, 2023, PHX Energy's US drilling activity was relatively flat at 13,234 operating days as compared to 13,405 days in the same 2022-period which is in line with the industry trend over the same period.

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 nine-month period ended September 30, 2023.

In the 2023 three-month period, PHX Energy increased the capacity of its motor rental fleet which allowed the business to grow its revenue 57 percent to $11.6 million from $7.4 million in the same 2022-period. In the nine-month period ended September

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(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.

30, 2023, US motor rental revenue was $31.2 million, a 65 percent increase compared to $19 million in the same 2022-period. During the 2023-quarter, PHX Energy also sold Atlas motor equipment and parts to certain customers and generated $6.2 million of revenue from this line of business. In the 2023 nine-month period, $10.1 million of Atlas motors and parts have been sold.

For the three and nine-month periods ended September 30, 2023, the US segment realized reportable segment income before tax of $25.5 million and $65.5 million, respectively, which are 49 percent and 62 percent higher than the corresponding 2022-periods. Greater margins from premium technologies and growth in the rental and sale of Atlas motors largely contributed to increased profitability in both 2023 periods.

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**44,145**	30,725	44	**111,716**	77,046	45
Motor rental	**283**	271	4	**1,384**	793	75
Total Canadian revenue	**44,428**	30,996	43	**113,100**	77,839	45
Reportable segment profit before tax [i]	**8,263**	4,479	84	**17,828**	7,930	125

[i] Includes adjustments to intercompany transactions.

In the third quarter of 2023, PHX Energy's Canadian operations generated revenue of $44.4 million, its highest level of quarterly revenue since the fourth quarter of 2014 and 43 percent higher compared to $31 million generated in the 2022-quarter. In the 2023 nine-month period, Canadian division revenue was $113.1 million, an increase of 45 percent as compared to $77.8 million in the same 2022-period. Strong quarterly revenue generated throughout 2023 was largely driven by higher average revenue per day[3] for directional drilling services which increased by 22 percent to $13,375 in the 2023-quarter from $10,926 in the corresponding 2022-quarter and increased by 24 percent to $13,257 in the 2023 nine-month period compared to $10,733 in the same 2022-period. Targeted marketing efforts, strong operational expertise, and increased deployment of premium technologies primarily contributed to the improved average revenue per day realized in both 2023-periods.

For the three and nine-month periods ended September 30, 2023, operating days improved by 16 percent in both periods to 3,301 and 8,427, respectively, compared to 2,835 days and 7,252 days in the corresponding 2022-periods. In comparison, industry horizontal and directional drilling activity (as measured by drilling days) declined by 4 percent to 16,261 days in the third quarter of 2023, and slightly increased by 1 percent to 44,093 days in the first three quarters of 2023 (Source: Daily Oil

[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.

Bulletin, hz-dir days 230331). PHX Energy's activity far exceeding that of the industry is a testament to the Corporation's strong reputation and presence in the Canadian market. During the 2023-quarter, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, Ellerslie, and Scallion basins.

For the three and nine-month periods ended September 30, 2023, the Corporation's Canadian division recognized reportable segment profit before tax of $8.3 million (2022 – $4.5 million) and $17.8 million (2022 - $7.9 million), respectively. The greater volume of activity and higher average revenue per day drove the improvements in profitability in both 2023 periods.

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2023	2022	% Change	**2023**	2022	% Change
Revenue	**1,116**	1,194	(7)	**3,463**	2,758	26
Reportable segment profit before tax	**351**	420	(16)	**1,248**	781	60

The Corporation's international segment revenue is comprised of revenue from Albania. For the three and nine-month periods ended September 30, 2023, the international segment's revenue was $1.1 million (2022 - $1.2 million) and $3.5 million (2022 - $2.8 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 $0.4 million in the 2023 three-month period, same level as the corresponding 2022-period, and $1.2 million in the 2023 nine-month period, almost 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 nine-month periods ended September 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 September 30, 2022	Nine-month period ended September 30 2022,
Revenue	$ -	$ 7,443
Expenses	-	(5,781)
	-	1,662
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	-	(10,561)
Loss on disposition of Phoenix TSR	-	(3,496)
Impairment and other write-offs	-	(1,967)
Loss from discontinued operations	-	(14,362)
Income tax from discontinued operations	-	196
Loss from discontinued operations, net of taxes	$ -	$ 7,443

Summary of Quarterly Results – Continuing Operations

(Stated in thousands of dollars except per share amounts)

	Sep-23	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22	Mar-22	Dec-21
Revenue	**169,368**	155,618	166,022	157,758	142,418	126,238	109,304	102,296
Earnings (loss)	**24,921**	18,108	22,417	20,333	13,475	12,818	(2,315)	9,330
Earnings (loss) per share – basic	**0.50**	0.35	0.44	0.40	0.27	0.25	(0.05)	0.19
Earnings (loss) per share – diluted	**0.50**	0.35	0.42	0.39	0.27	0.25	(0.05)	0.18
Dividends paid	**7,621**	7,656	7,636	5,078	3,797	3,791	2,482	2,505
Cash and cash equivalents	**14,845**	20,080	15,502	18,247	27,024	17,971	11,284	24,829
Loans and borrowings	**18,302**	27,685	29,847	22,731	24,000	20,108	3,749	-

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**33,628**	21,627	**59,969**	29,367
Funds from operations(2)	**34,166**	22,711	**91,150**	47,413

	Sep. 30, '23	Dec. 31, '22
Working capital(2)	**101,271**	94,339
Net debt(2)	**3,457**	4,484

In the 2023 three and nine-month periods, cash flow from operating activities increased to $33.6 million and $60 million, respectively, as compared to the $21.6 million and $29.4 million in the corresponding 2022 periods. For the three and nine-month periods ended September 30, 2023, funds from operations were $34.2 million and $91.2 million, respectively, as compared to $22.7 million and $47.4 million in the comparable 2022 periods. The significant improvements in cash flows from operating activities and funds from operations were primarily driven by increased levels of profitability in both 2023 periods.

As at September 30, 2023, the Corporation had working capital of $101.3 million, an increase of $7 million from the $94.3 million reported at December 31, 2022. The increase in working capital at September 30, 2023 was largely due to lower levels of trade and other payables. Net debt as at September 30, 2023 was $3.5 million, a decrease of $1 million from the $4.5 million reported at December 31, 2022. The decrease in net debt was mainly due to repayments on the Corporation's credit facilities in the 2023-period.

Cash Flow, Dividends, and ROCS

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

(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.

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.

During the third quarter of 2023, 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 3,552,810 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 2, 2023. The NCIB commenced on August 16, 2023 and will terminate on August 15, 2024. 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 previous and current NCIB, 2,442,700 common shares were purchased by the Corporation for $17.5 million and cancelled in the third quarter of 2023. In the 2023 nine-month period, PHX Energy purchased and cancelled 2,710,500 common shares for $19.1 million.

(Stated in thousands of dollars)

	Nine-month period ended September 30, 2023
Excess cash flow	**70,465**
70% of excess cash flow	**49,326**
Deduct:	
Repurchase of shares under the NCIB	**(19,102)**
Dividends paid to shareholders	**(22,913)**
Remaining distributable balance under ROCS[2]	**7,311**

On September 15, 2023, the Corporation declared a dividend of $0.15 per common share, which is 50 percent higher than the dividend declared on September 15, 2022. An aggregate of $7.3 million was paid on October 16, 2023 to shareholders of record at the close of business on September 30, 2023.

In November 2023, the Board approved an increase to the quarterly dividend to $0.20 per share effective for the dividend payable to shareholders of record at the close of business on December 31, 2023. This is the fifth dividend increase since the dividend program was reinstated in December 2020 with a quarterly dividend of $0.025.

[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.

Investing Activities

Net cash used in investing activities for the three-month period ended September 30, 2023 was $3.9 million as compared to $12.8 million in the 2022-period. During the third quarter of 2023, the Corporation spent $12.5 million (2022 - $10.2 million) to grow the Corporation's fleet of drilling equipment and $6.3 million (2022 - $8.4 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 $11.7 million (2022 - $6.3 million), the Corporation's net capital expenditures[(2)] for the 2023-quarter were $7.1 million (2022 - $12.4 million).

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Growth capital expenditures	**12,471**	10,191	**27,356**	33,205
Maintenance capital expenditures	**6,333**	8,440	**22,102**	18,846
Total capital expenditures	**18,804**	18,631	**49,458**	52,051
Deduct:				
Proceeds on disposition of drilling equipment	**11,682**	6,274	**32,689**	15,454
Net capital expenditures[(2)]	**7,122**	12,357	**16,769**	36,597

The 2023-period capital expenditures comprised of:

- $6.8 million in downhole performance drilling motors;
- $11.5 million in MWD systems and spare components and RSS; and
- $0.5 million in machinery and equipment and other assets.

The change in non-cash working capital balances of $3.2 million (source of cash) for the three-month period ended September 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 $0.4 million (use of cash) for the three-month period ended September 30, 2022.

[(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.

Financing Activities

For the three-month period ended September 30, 2023, net cash used in financing activities was $35.3 million as compared to $0.3 million in the 2022-period. In the 2023-period:

- dividends of $7.6 million were paid to shareholders;
- $9.4 million net repayments were made towards the Corporation's syndicated credit facility;
- 2,442,700 common shares were purchased by the Corporation for $17.5 million and cancelled under the NCIB;
- payments of $0.8 million were made towards lease liabilities; and
- 150,000 common shares were issued from treasury for proceeds of $0.4 million upon the exercise of share options.

Capital Resources

As of September 30, 2023, the Corporation had CAD $18.3 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $14.8 million. As at September 30, 2023, the Corporation had CAD $46.5 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 September 30, 2023, the Corporation was in compliance with all its financial covenants.

In November 2023, the Corporation increased the borrowing amounts in the syndicated facility from CAD $50 million to CAD $80 million and in the US operating facility from USD $15 million to USD $20 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2026. With the increased borrowing amounts, the Corporation has approximately CAD $76.5 million and USD $20 million available to be drawn from its credit facilities.

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. The Board approved an increase of the 2023 capital expenditure program to $80 million. Of the 2023 capital expenditures, $35 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 $45 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.

As demand for the Corporation’s premium technologies continues to grow, and the outlook that the declining rig counts in North America will level off, the Board has approved a preliminary 2024 capital expenditure program of $70 million, of which $42 million is anticipated to be spent on growth. The growth capital expenditures are expected to be allocated towards: building larger fleets of recently commercialized supplementary technologies that create value added capabilities within the premium fleet and are already in high demand; additional motor capacity to grow the Atlas rental and sales division; and add required Velocity systems, RSS and Atlas motos to continue to meet demand for full service operations. The remaining $28 million is anticipated to be spent on maintenance of the fleet of drilling and other equipment.

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 September 30, 2023, the Corporation has commitments to purchase drilling and other equipment for $33.8 million. Deliveries are expected to occur throughout the rest of the 2023-year and into the first quarter of 2024.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at September 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.

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 September 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 November 7, 2023**
Common shares outstanding, excluding shares held in trust	48,508,438
Common shares held in trust [i]	3,299
Total common shares outstanding	48,511,737
Dilutive securities:	
Options	1,068,334
Corporation shares – diluted	49,580,071

[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) <u>Adjusted EBITDA from Continuing Operations</u>

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 September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Earnings from continuing operations:	**24,921**	13,475	**65,447**	23,978
Add:				
Depreciation and amortization drilling and other equipment	**9,867**	8,143	**28,805**	23,243
Depreciation and amortization right-of-use asset	**822**	745	**2,057**	2,430
Provision for income taxes	**6,191**	3,667	**14,529**	6,384
Finance expense	**598**	499	**1,974**	873
Finance expense lease liability	**554**	498	**1,695**	1,507
Equity-settled share-based payments	**144**	133	**431**	393
Unrealized foreign exchange loss	**427**	155	**392**	37
Adjusted EBITDA from continuing operations	**43,524**	27,315	**115,330**	58,845

b) <u>Adjusted EBITDA from Continuing Operations Per Share - Diluted</u>

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) <u>Adjusted EBITDA from Continuing Operations as a Percentage of Revenue</u>

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) <u>Adjusted EBITDA from Continuing Operations Excluding Cash-settled Share-based Compensation Expense</u>

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. Management believes that this measure 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, how it was taxed in various countries, and without the impact of cash-settled share-based compensation expense that is affected by fluctuations in the Corporation's share price.

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 September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Earnings (loss) from continuing operations:	**24,921**	13,475	**65,447**	23,978
Add:				
Depreciation and amortization drilling and other equipment	**9,867**	8,143	**28,805**	23,243
Depreciation and amortization right-of-use asset	**822**	745	**2,057**	2,430
Provision for (Recovery of) income taxes	**6,191**	3,667	**14,529**	6,384
Finance expense	**598**	499	**1,974**	873
Finance expense lease liability	**554**	498	**1,695**	1,507
Equity-settled share-based payments	**144**	133	**431**	393
Unrealized foreign exchange loss	**427**	155	**392**	37
Cash-settled share-based compensation expense	**4,969**	5,178	**8,899**	17,630
Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense	**48,493**	32,493	**124,229**	76,475

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 September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Revenue	**169,368**	142,418	**491,008**	377,987
Direct costs	**125,138**	111,734	**376,996**	304,200
Gross profit	**44,230**	30,684	**114,012**	73,787
Depreciation & amortization drilling and other equipment (included in direct costs)	**9,867**	8,143	**28,805**	23,243
Depreciation & amortization right-of-use asset (included in direct costs)	**822**	745	**2,057**	2,430
	54,919	39,572	**144,874**	99,460
Gross profit as a percentage of revenue excluding depreciation & amortization	**32%**	28%	**30%**	26%

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 September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
SG&A Costs	**19,833**	15,589	**50,911**	49,536
Deduct:				
Share-based compensation (included in SG&A)	**5,113**	5,311	**9,330**	18,023
	14,720	10,278	**41,581**	31,513
Revenue	**169,368**	142,418	**491,008**	377,987
SG&A costs excluding share-based compensation as a percentage of revenue	**9%**	7%	**8%**	8%

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 September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**33,628**	21,627	**59,969**	29,367
Add (deduct):				
Changes in non-cash working capital	**(7,011)**	679	**21,141**	17,683
Interest paid	**473**	414	**1,506**	592
Income taxes paid (received)	**7,076**	(9)	**8,534**	(229)
Funds from operations	**34,166**	22,711	**91,150**	47,413

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 September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**33,628**	21,627	**59,969**	29,367
Add (deduct):				
Changes in non-cash working capital	**(7,011)**	679	**21,141**	17,683
Interest paid	**473**	414	**1,506**	592
Income taxes paid (received)	**7,076**	(9)	**8,534**	(229)
Cash payment on leases	**(1,320)**	(1,233)	**(3,916)**	(3,973)
	32,846	21,478	**87,234**	43,440
Proceeds on disposition of drilling equipment	**11,682**	6,274	**32,689**	15,454
Maintenance capital expenditures	**(6,333)**	(8,440)	**(22,102)**	(18,846)
Net proceeds	**5,349**	(2,166)	**10,587**	(3,392)
Growth capital expenditures	**(12,471)**	(10,191)	**(27,356)**	(33,205)
Excess cash flow	**25,724**	9,121	**70,465**	6,843

c) <u>Working Capital</u>

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)

	September 30, 2023	December 31, 2022
Current assets	**209,993**	210,227
Deduct:		
Current liabilities	**(108,722)**	(115,888)
Working capital	**101,271**	94,339

d) <u>Net Debt</u>

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)

	September 30, 2023	December 31, 2022
Loans and borrowings	**18,302**	22,731
Deduct:		
Cash and cash equivalents	**(14,845)**	(18,247)
Net debt	**3,457**	4,484

e) Net Capital Expenditures

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 September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Growth capital expenditures	**12,471**	10,191	**27,356**	33,205
Maintenance capital expenditures	**6,333**	8,440	**22,102**	18,846
Total capital expenditures	**18,804**	18,631	**49,458**	52,051
Deduct:				
Proceeds on disposition of drilling equipment	**11,682**	6,274	**32,689**	15,454
Net capital expenditures	**7,122**	12,357	**16,769**	36,597

f) Remaining Distributable Balance under ROCS

Remaining distributable balance under ROCS is comprised of 70% of excess cash flow as defined above less repurchases of shares under the Normal Course Issuer Bids in effect during the period and less the dividends paid to shareholders during the period. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses the remaining distributable balance under ROCS to provide insight as to the Corporation's ROCS strategy as at the reporting date. PHX Energy's method of calculating remaining distributable balance under ROCS 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 excess cash flow as defined above to remaining distributable balance under ROCS:

(Stated in thousands of dollars)

	Nine-month period ended September 30, 2023
Excess cash flow	**70,465**
70% of excess cash flow	**49,326**
Deduct:	
Repurchase of shares under the NCIB	**(19,102)**
Dividends paid to shareholders	**(22,913)**
Remaining Distributable Balance under ROCS	**7,311**

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 expectation that the increase to the Corporation's credit facilities will provide PHX Energy flexibility to take advantage of lucrative opportunities when presented in the future;
- 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 expectation that the increase of $18.5 million in the 2023 capital expenditure budget will be directed mainly towards growing and maintaining PHX Energy's RSS and Atlas motor fleets.
- The expectation that of the total expenditures of $80 million, $45 million is to be allocated to growth capital and the remaining $35 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 possibility that the maintenance capital amount could increase throughout the year should there be more downhole equipment losses than forecasted and that these increases would likely be funded by proceeds on disposition of drilling equipment;
- The anticipated preliminary 2024 capital expenditure program of $70 million, of which $42 million is anticipated to be spent on growth. The growth capital expenditures are expected to be allocated towards: building larger fleets of recently commercialized supplementary technologies that create value added capabilities within the premium fleet and are already in high demand; additional motor capacity to grow the Atlas rental division; and add required Velocity systems, RSS and Atlas motors to continue to meet demand for full service operations. The remaining $28 million is anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations;
- The expectation that the equipment on order related to the capital commitments of $33.8 million as at September 30, 2023 will be delivered within 2023 and the first quarter of 2024;
- The 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;
- The anticipation that the Atlas sales business will continue to generate a steady stream of revenue from the ongoing orders for parts under the current sales agreements and the potential that the purchasers may place subsequent orders for additional Atlas motors late in 2023 and through the upcoming year;

- The anticipated industry activity and demand for the Corporation's services and high-performance technologies in North America, particularly that the Corporation's 2023-momenteum will continue into the upcoming year and that the declining rig counts in North America will level off;
- The expectation that the Corporation will be able to expand its motor rentals and sales divisions and that revenue will continue to grow in in future periods and that this will also enhance profitability, and
- the anticipated continuation of PHX Energy's quarterly dividend program and the amounts of dividends.

The above are stated under the headings: "Financial Results", "Dividends and ROCS", "Capital Spending", "Sales and Licensed Use of Atlas Motors", "Revenue", "Segmented Information" "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, 2024 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 conflicts and 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 Interim Statements of Financial Position

(unaudited)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,845,393	$ 18,247,376
Trade and other receivables	128,588,190	125,836,273
Inventories	63,569,528	63,119,489
Prepaid expenses	2,989,717	3,024,166
Total current assets	209,992,828	210,227,304
Non-current assets:		
Drilling and other long-term assets (Note 6)	127,753,169	115,945,060
Right-of-use assets	27,978,171	29,336,163
Intangible assets	14,111,652	15,668,180
Investments	3,000,500	3,000,500
Other long-term assets	1,645,473	993,112
Deferred tax assets	53,869	53,869
Total non-current assets	174,542,834	164,996,884
Total assets	$ 384,535,662	$ 375,224,188
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	$ 92,021,042	$ 104,688,901
Dividends payable (Note 8d)	7,276,760	7,636,085
Lease liability	3,229,737	2,906,708
Current tax liabilities	6,194,933	656,499
Total current liabilities	108,722,472	115,888,193
Non-current liabilities:		
Lease liability	34,909,196	36,768,003
Loans and borrowings (Note 7)	18,302,454	22,731,389
Deferred tax liability	18,719,720	18,496,619
Other (Note 8c)	2,838,630	4,461,531
Total non-current liabilities	74,770,000	82,457,542
Equity:		
Share capital (Note 8a)	233,646,892	251,344,809
Contributed surplus	7,178,466	7,044,317
Deficit	(69,376,356)	(112,120,484)
Accumulated other comprehensive income	29,594,188	30,609,811
Total equity	201,043,190	176,878,453
Total liabilities and equity	$ 384,535,662	$ 375,224,188

See accompanying notes to unaudited condensed consolidated interim financial statements.

Commitments (Note 6b)

Condensed Consolidated Interim Statements of Comprehensive Earnings

(unaudited)

	Three-month periods ended September 30, 2023	Three-month periods ended September 30, 2022	Nine-month periods ended September 30, 2023	Nine-month periods ended September 30, 2022
Revenue (Note 4)	**$ 169,367,911**	$ 142,418,326	**$ 491,008,431**	$ 377,986,582
Direct costs	**125,137,605**	111,734,015	**376,995,672**	304,200,177
Gross profit	**44,230,306**	30,684,311	**114,012,759**	73,786,405
Expenses:				
Selling, general and administrative expenses	**19,832,791**	15,589,015	**50,911,033**	49,536,435
Research and development expenses	**1,245,826**	909,169	**3,816,601**	2,538,935
Finance expense	**597,898**	499,461	**1,974,058**	873,445
Finance expense lease liability	**554,405**	498,239	**1,694,550**	1,506,640
Other income (Note 9)	**(9,113,282)**	(3,953,620)	**(24,359,774)**	(11,031,501)
	13,117,638	13,542,264	**34,036,468**	43,423,954
Earnings from continuing operations before income taxes	**31,112,668**	17,142,047	**79,976,291**	30,362,451
Provision for income taxes				
Current	**5,616,371**	625,922	**13,591,604**	396,650
Deferred	**575,118**	3,041,401	**937,818**	5,987,492
	6,191,489	3,667,323	**14,529,422**	6,384,142
Earnings from continuing operations	**24,921,179**	13,474,724	**65,446,869**	23,978,309
Discontinued operations				
Net loss from discontinued operations, net of taxes (Note 11)	**-**	-	**-**	(14,558,032)
Net earnings	**24,921,179**	13,474,724	**65,446,869**	9,420,277
Other comprehensive income				
Foreign currency translation	**3,613,465**	8,739,048	**(1,015,623)**	10,563,631
Reclassification of foreign currency translation loss on disposition (Note 11)	**-**	-	**-**	10,560,954
Total comprehensive earnings for the period	**$ 28,534,644**	$ 22,213,772	**$ 64,431,246**	$ 30,544,862
Earnings (loss) per share – basic				
Continuing operations	**$ 0.50**	$ 0.27	**$ 1.29**	$ 0.48
Discontinued operations	**$ -**	$ -	**$ -**	$ (0.29)
Net earnings	**$ 0.50**	$ 0.27	**$ 1.29**	$ 0.19
Earnings (loss) per share – diluted				
Continuing operations	**$ 0.50**	$ 0.27	**$ 1.28**	$ 0.48
Discontinued operations	**$ -**	$ -	**$ -**	$ (0.29)
Net earnings	**$ 0.50**	$ 0.27	**$ 1.28**	$ 0.19

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

(unaudited)

Nine-month period ended September 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	**315,000**		**763,950**		**-**		**-**		**-**		**763,950**
Issuance of share capital from trust on settlement of retention awards	**121,763**		**955,066**		**-**		**-**		**-**		**955,066**
Common Shares repurchased and cancelled	**(2,710,500)**		**(19,101,893)**		**-**		**-**		**-**		**(19,101,893)**
Common shares purchased and held in trust	**(114,000)**		**(612,000)**		**-**		**-**		**-**		**(612,000)**
Share-based payments	**-**		**-**		**431,109**		**-**		**-**		**431,109**
Fair value of options exercised	**-**		**296,960**		**(296,960)**		**-**		**-**		**-**
Net earnings	**-**		**-**		**-**		**-**		**65,446,869**		**65,446,869**
Foreign currency translation, net of tax	**-**		**-**		**-**		**(1,015,623)**		**-**		**(1,015,623)**
Dividends	**-**		**-**		**-**		**-**		**(22,702,741)**		**(22,702,741)**
Balance, September 30, 2023	**48,508,438**	**$**	**233,646,892**	**$**	**7,178,466**	**$**	**29,594,188**	**$**	**(69,376,356)**	**$**	**201,043,190**

Nine-month period ended September 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	1,140,138		2,170,885		-		-		-		2,170,885
Issuance of share capital from trust on settlement of retention awards	2,144,795		13,491,993		-		-		-		13,491,993
Common shares purchased and held in trust	(555,300)		(3,500,000)		-		-		-		(3,500,000)
Share-based payments	-		-		393,042		-		-		393,042
Fair value of options exercised	-		2,744,647		(2,744,647)		-		-		-
Net earnings	-		-		-		-		9,420,277		9,420,277
Foreign currency translation, net of tax	-		-		-		10,563,631		-		10,563,631
Reclassification of foreign currency translation loss on disposition (Note 11)	-		-		-		10,560,954		-		10,560,954
Dividends	-		-		-		-		(12,515,968)		(12,515,968)
Balance, September 30, 2022	50,708,295	$	250,370,939	$	7,110,486	$	32,353,114	$	(124,817,481)	$	165,017,058

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30, 2023	Three-month periods ended September 30, 2022	Nine-month periods ended September 30, 2023	Nine-month periods ended September 30, 2022
Cash flows from operating activities:				
Earnings from continuing operations	**$ 24,921,179**	$ 13,474,724	**$ 65,446,869**	$ 23,978,309
Adjustments for:				
Depreciation and amortization	**9,866,881**	8,143,257	**28,804,904**	23,242,730
Depreciation and amortization right-of-use asset	**822,190**	744,876	**2,057,025**	2,429,603
Provision for income taxes	**6,191,489**	3,667,323	**14,529,422**	6,384,142
Unrealized foreign exchange gain	**427,482**	155,128	**391,554**	36,602
Net gain on disposition of drilling equipment (Note 9)	**(8,353,639)**	(4,157,247)	**(23,903,064)**	(10,798,870)
Equity-settled share-based payments	**144,193**	133,034	**431,109**	393,042
Finance expense	**597,898**	499,461	**1,974,058**	873,445
Finance expense lease liability	**554,405**	498,239	**1,694,550**	1,506,640
Provision for (recovery of) bad debts	**(1,106,245)**	(1,501)	**116,519**	(1,501)
Provision for inventory obsolescence	**653,716**	51,868	**1,301,822**	876,524
Interest paid on lease liability	**(554,405)**	(498,239)	**(1,694,550)**	(1,506,640)
Interest paid	**(472,654)**	(413,530)	**(1,506,251)**	(591,701)
Income taxes received (paid)	**(7,075,749)**	9,461	**(8,533,759)**	228,591
Change in non-cash working capital	**7,011,213**	(679,450)	**(21,140,830)**	(17,683,437)
Continuing operations	**33,627,954**	21,627,404	**59,969,378**	29,367,479
Discontinued operations (Note 11)	**-**	-	**-**	(1,254,859)
Net cash from operating activities	**33,627,954**	21,627,404	**59,969,378**	28,112,620
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**11,682,392**	6,274,079	**32,689,018**	15,453,628
Acquisition of drilling and other equipment	**(18,803,529)**	(18,631,230)	**(49,457,974)**	(52,051,148)
Acquisition of intangible assets	**-**	(74,189)	**-**	(692,394)
Change in non-cash working capital	**3,203,370**	(370,923)	**2,150,701**	339,967
Continuing operations	**(3,917,767)**	(12,802,263)	**(14,618,255)**	(36,949,947)
Discontinued operations (Note 11)	**-**	-	**-**	(68,068)
Net cash used in investing activities	**(3,917,767)**	(12,802,263)	**(14,618,255)**	(37,018,015)
Cash flows from financing activities:				
Dividends paid to shareholders	**(7,620,665)**	(3,796,793)	**(22,912,561)**	(10,069,396)
Repurchase of shares under the NCIB	**(17,523,151)**	-	**(19,101,893)**	-
Proceeds from (repayment of) loans and borrowings	**(9,399,518)**	3,892,008	**(4,231,389)**	24,000,000
Payments of Lease Liability	**(765,891)**	(734,273)	**(2,221,166)**	(2,466,184)
Purchase of shares held in trust	**-**	-	**(612,000)**	(3,500,000)
Proceeds from exercise of options	**414,500**	359,032	**763,950**	2,170,885
Change in non-cash working capital	**(414,500)**	-	**(414,500)**	-
Continuing operations	**(35,309,225)**	(280,026)	**(48,729,559)**	10,135,305
Net cash from (used in) financing activities	**(35,309,225)**	(280,026)	**(48,729,559)**	10,135,305
Net increase (decrease) in cash and cash equivalents	**(5,599,038)**	8,545,115	**(3,378,436)**	1,229,910
Cash and cash equivalents, beginning of period	**20,079,623**	17,971,334	**18,247,376**	24,828,830
Effect of movements in exchange rates on cash held	**364,808**	507,210	**(23,547)**	964,919
Cash and cash equivalents, end of period	**$ 14,845,393**	$ 27,023,659	**$ 14,845,393**	$ 27,023,659

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended September 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 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 November 7, 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 September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Directional drilling services	**44,145**	30,725	**105,980**	102,806	**1,116**	1,194	**151,241**	134,725
Motor rental	**283**	271	**11,636**	7,422	**-**	-	**11,919**	7,693
Sale of motor equipment and parts	**-**	-	**6,208**	-	**-**	-	**6,208**	-
Total revenue	**44,428**	30,996	**123,824**	110,228	**1,116**	1,194	**169,368**	142,418

(Stated in thousands of dollars)	Canada		United States		International		Total	
Nine-month periods ended September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Directional drilling services	**111,716**	77,046	**333,123**	278,440	**3,463**	2,758	**448,302**	358,244
Motor rental	**1,384**	793	**31,204**	18,950	**-**	-	**32,588**	19,743
Sale of motor equipment and parts	**-**	-	**10,118**	-	**-**	-	**10,118**	-
Total revenue	**113,100**	77,839	**374,445**	297,390	**3,463**	2,758	**491,008**	377,987

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 September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total revenue	**44,428**	30,996	**123,824**	110,228	**1,116**	1,194	**169,368**	142,418
Reportable segment profit before income taxes	**8,263**	4,479	**25,494**	17,056	**351**	420	**34,108**	21,955

(Stated in thousands of dollars)	Canada		United States		International		Total	
Nine-month periods ended September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total revenue	**113,100**	77,839	**374,445**	297,390	**3,463**	2,758	**491,008**	377,987
Reportable segment profit before income taxes	**17,828**	7,930	**65,453**	40,387	**1,248**	781	**84,529**	49,098

(Stated in thousands of dollars)	Canada		United States		International		Total	
As at September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total Assets	**134,831**	122,363	**247,110**	228,739	**2,595**	2,051	**384,536**	353,153

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Reportable segment profit before income taxes	**34,108**	21,955	**84,529**	49,098
Corporate:				
Selling, general and administrative expenses	**9,710**	6,861	**21,427**	24,849
Research and development expenses	**1,246**	909	**3,817**	2,539
Finance expense	**598**	499	**1,974**	873
Finance expense lease liability	**554**	498	**1,695**	1,507
Other income	**(9,113)**	(3,954)	**(24,360)**	(11,032)
Earnings from continuing operations before income taxes	**31,113**	17,142	**79,976**	30,362

6. Drilling and Other Long Term Assets

a) Acquisitions and Disposals

During the nine-month period ended September 30, 2023, the Corporation acquired assets with a cost of $49.5 million (2022 - $52.1 million).

Assets with a carrying amount of $8.8 million (2022 - $4.7 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $23.9 million (2022 - $10.8 million), which is included in other income (see Note 9) in the condensed consolidated interim statement of comprehensive income.

b) Capital Commitments

As at September 30, 2023, the Corporation has commitments to purchase drilling and other equipment for $33.8 million with delivery expected to occur throughout the rest of the 2023-year and into the first quarter of 2024.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at September 30, 2023**	Currency	Carrying Amount at December 31, 2022
Operating facility	CAD	15,000	December 12, 2025	CAD	**-**	CAD	731
Syndicated facility	CAD	50,000	December 12, 2025	CAD	**18,302**	CAD	22,000
Total CAD facility		65,000			**18,302**		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 September 30, 2023. Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at September 30, 2023 the Corporation was in compliance with all of its financial covenants as follows:

Ratio	Covenant	**September 30, 2023**
Debt to covenant EBITDA	< 3.0x	**0.13**
Interest coverage ratio	> 3.0x	**58.49**

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 September 30, 2023 the Corporation has approximately CAD $46.5 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.

In November 2023, the Corporation increased the borrowing amounts in the syndicated facility from CAD $50 million to CAD $80 million and in the US operating facility from USD $15 million to USD $20 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2026. With the increased borrowing amounts, the Corporation has approximately CAD $76.5 million and USD $20 million available to be drawn from its credit facilities. Interest on the operating facility will be at the bank's prime rate plus one percent. Interest on the syndicated facility would be at the Canadian Overnight Repo Rate Average ("CORRA") plus two percent.

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	**(2,710,500)**		**(19,101,893)**
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	**315,000**		**1,060,910**
Balance as at September 30, 2023	**48,508,438**	**$**	**233,646,892**

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 nine-month periods ended September 30, 2023 were $0.1 million and $0.4 million, respectively (2022 - $0.1 million recovery and $0.4 million, respectively).

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

	September 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	**(315,000)**	**2.43**	(1,970,866)	3.44
Outstanding, end of period	**1,068,334**	**4.65**	1,133,334	3.31
Options exercisable, end of period	**818,329**	**3.84**	799,994	2.86

The weighted-average share price at the date of exercise for share options exercised for the nine-month period ended September 30, 2023 was $7.61 (2022 - $6.16).

The range of exercise prices for options outstanding at September 30, 2023 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	0.44 yrs	2.81	50,000	2.81
35,000	0.44 yrs	2.83	35,000	2.83
100,000	1.43 yrs	2.19	100,000	2.19
50,000	1.43 yrs	2.09	50,000	2.09
200,000	2.43 yrs	2.74	200,000	2.74
133,334	2.43 yrs	2.64	133,334	2.64
150,000	3.43 yrs	6.08	99,999	6.08
100,000	3.43 yrs	6.16	66,666	6.16
150,000	4.44 yrs	7.96	49,998	7.96
100,000	4.44 yrs	7.83	33,332	7.83
1,068,334	2.84 yrs	$ 4.65	818,329	$ 3.84

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 nine-month period ended September 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 – 2,144,795) to settle retention award obligations of $1 million (2022 - $13.5 million). As at September 30, 2023, the Corporation held 3,301 common shares in trust (2022 – 73,044). 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 nine-month period ended September 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 September 30, 2023, 846,756 PAs were outstanding (2022 – 1,565,276).

The Corporation recorded a total of $8.9 million compensation expense relating to these plans for the nine-month period ended September 30, 2023 (2022 – $17.6 million). The expense is included in selling, general and administrative expense and has a corresponding liability of $8.9 million in trade and other payables for the current portion and $2.8 million included in other liabilities for the long-term portion. There were 2,135,283 RAs and PAs outstanding as at September 30, 2023 (2022 – 3,293,538).

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

	September 30, 2023	December 31, 2022
RAs and PAs outstanding, beginning of period	**2,845,191**	3,267,579
Granted	**743,593**	1,613,555
Settled	**(1,453,501)**	(1,644,012)
Forfeited / cancelled	**-**	(391,931)
RAs and PAs outstanding, end of period	**2,135,283**	2,845,191

d) Dividends

On September 15, 2023, the Corporation declared a dividend of $0.15 per share or $7.3 million payable on October 16, 2023.

e) Normal Course Issuer Bid

During the third quarter of 2023, 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 3,552,810 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 2, 2023. The NCIB commenced on August 16, 2023 and will terminate on August 15, 2024. 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 previous and current NCIB, 2,710,500 common shares were purchased by the Corporation for $19.1 million and cancelled in the nine-month period ended September 30, 2023.

9. Other Income

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
(Stated in thousands of dollars)	**2023**	2022	**2023**	2022
Net gain on disposition of drilling equipment	**8,354**	4,157	**23,903**	10,799
Foreign exchange gains (losses)	**(347)**	(205)	**574**	(281)
Recovery of (provision for) bad debts	**1,106**	2	**(117)**	2
Other	**-**	-	**-**	512
Other income	**9,113**	3,954	**24,360**	11,032

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 September 30, 2022	Nine-month period ended September 30, 2022
Revenue	$ -	$ 7,443
Expenses	-	(5,781)
	-	1,662
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	-	(10,561)
Loss on disposition of Phoenix TSR	-	(3,496)
Impairment and other write-offs	-	(1,967)
Loss from discontinued operations	-	(14,362)
Income tax from discontinued operations	-	196
Loss from discontinued operations, net of taxes	$ -	$ (14,558)

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

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

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