Press Release
February 25, 2025
TSX – PHX
Calgary, Alberta

PHX Energy Announces All-Time Record Fourth Quarter and Annual Revenue and Strong Financial Results

Fourth Quarter Highlights

- For the three-month period ended December 31, 2024, PHX Energy generated consolidated revenue of $178.7 million, the highest level of fourth quarter revenue on record and the highest level of quarterly revenue in the Corporation's history. Consolidated revenue in the 2024-quarter included $10 million of motor rental revenue and $5.3 million of revenue generated from the sale of motor equipment and parts (2023 - $10.3 million and $0.9 million, respectively).

- PHX Energy's US division revenue in the fourth quarter of 2024 was $132.3 million, 8 percent higher than the $122.1 million generated in the fourth quarter of 2023 and the highest level of US quarterly revenue on record. US division revenue in the 2024-quarter represented 74 percent of consolidated revenue (2023 – 74 percent).

- PHX Energy's Canadian division reported $46.3 million of quarterly revenue, 7 percent higher compared to $43.3 million in the 2023-quarter and the highest level of fourth quarter revenue for the Canadian division since 2014.

- In the fourth quarter of 2024, adjusted EBITDA(1) was $29.6 million, 17 percent of consolidated revenue(1) as compared to $35.4 million, 21 percent of consolidated revenue, in the same 2023-quarter. Included in the 2024-quarter's adjusted EBITDA is a $2.2 million write-down of inventory to its net realizable value at the end of the 2024-period. Additionally, adjusted EBITDA in the 2024-quarter included $2.2 million in cash-settled share-based compensation expense (2023 - $4.6 million). Adjusted EBITDA excluding cash-settled share-based compensation expense(1) in the fourth quarter of 2024 was $31.8 million, 18 percent of consolidated revenue(1) (2023 - $40 million, 24 percent of consolidated revenue). Despite higher revenue generated in the 2024-quarter, profitability declined mainly due to generally higher equipment repair expenses, weaker activity in the Corporation's high margin RSS and motor rental revenue streams in the US, and lower net gain on disposition of drilling equipment realized in the 2024-quarter.

- Earnings in the 2024 three-month period were $14.1 million, $0.30 per share, as compared to $33.1 million, $0.68 per share, in the same 2023-period. Earnings in the 2024-period included a provision for income tax of $1.7 million while earnings in the 2023-period included a $9.5 million recovery of income taxes that resulted primarily from the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction. Additionally, as a result of fixed asset additions throughout 2024, depreciation and amortization expenses on drilling and other equipment increased by 18 percent to $11.8 million (pre-tax) in the 2024-quarter from $10.1 million (pre-tax) in the corresponding 2023-quarter.

- In the 2024 three-month period, the Corporation generated excess cash flow(2) of $17.3 million (2023 - $22.3 million), after deducting net capital expenditures(2) of $5.7 million.

- For the three-month period ended December 31, 2024, PHX Energy purchased and canceled 493,000 common shares for $4.9 million through its current Normal Course Issuer Bid ("NCIB").
- In the fourth quarter of 2024, PHX Energy paid $9.2 million in dividends which is 26 percent more than the dividend amount paid in the same 2023-quarter. On December 13, 2024, the Corporation declared a dividend of $0.20 per share or $9.1 million, paid on January 15, 2025 to shareholders of record on December 31, 2024.

Year End Highlights

- For the year ended December 31, 2024, the Corporation generated annual consolidated revenue of $659.7 million which is the highest annual revenue in the Corporation's history (2023 - $656.3 million). Consolidated revenue in the 2024-year included $38.4 million of motor rental revenue (2023 - $47 million) and $11.2 million of revenue generated from the sale of motor equipment and parts (2023 – $11 million).
- The Corporation's US division achieved annual revenue of $479.5 million, only 3 percent lower than the record $496.5 million set in 2023. US division revenue in the 2024-year represented 73 percent of consolidated revenue (2023 – 76 percent).
- PHX Energy's Canadian division generated annual revenue of $180.2 million (2023 - $159.8 million), the highest level achieved since 2014.
- For the year-ended December 31, 2024, adjusted EBITDA(1) was $123.7 million, 19 percent of consolidated revenue and the second highest level in the Corporation's history, as compared to the record $150.7 million, 23 percent of consolidated revenue in 2023. Included in the 2024-year's adjusted EBITDA is $24.6 million of net gain on disposition of drilling equipment, a decrease compared to $31.3 million in 2023, and a $2.2 million write-down of inventory to its net realizable value at the end of 2024. Apart from the lower net gain on disposition of drilling equipment and write-down of inventory, the decline in profitability in the 2024-year was primarily due to generally increased equipment repair costs, weaker activity in the Corporation's high margin RSS and motor rental revenue streams in the US, and lower margins realized from the sale of motor equipment and parts. For the year-ended December 31, 2024, the Corporation recognized cash-settled share-based compensation expense of $11.8 million (2023 - $13.5 million). Adjusted EBITDA excluding cash-settled share-based compensation expense(1) in the 2024-year was $135.5 million, 21 percent of consolidated revenue (2023 - $164.2 million, 25 percent of consolidated revenue).
- In the 2024-year, earnings were $54.6 million, $1.16 per share as compared to $98.6 million, $1.96 per share in 2023. For the year-ended December 31, 2024, the Corporation recorded a tax provision of $15.7 million, an increase compared to $5.1 million in 2023. Additionally, depreciation and amortization expenses in the 2024 twelve-month period increased by 15 percent to $44.8 million (pre-tax) from $38.9 million (pre-tax) in 2023.
- For the year ended December 31, 2024, PHX Energy generated excess cash flow(2) of $47.6 million, after deducting net capital expenditures(2) of $46.5 million.
- In the 2024 twelve-month period, through its previous and current NCIB, the Corporation purchased and canceled 2,141,232 common shares for $20.6 million.
- Since the second quarter of 2017 to December 31, 2024, a total of 16.3 million common shares have been purchased and cancelled under PHX Energy's various NCIB's. This represents 28 percent of common shares outstanding as of

June 30, 2017. It is the Corporation's intention to continue the current strategy of leveraging the NCIB as a tool to further reward shareholders through its Return of Capital Strategy ('ROCS").

- PHX Energy paid $37.6 million in dividends in the 2024-year which is 24 percent higher than the dividend amount paid in 2023.
- The Board previously approved a preliminary 2025 capital expenditure budget of $50 million. With $2 million of the 2024 capital expenditure budget carried forward into 2025 and an additional $3 million in capital expenditures expected, the Corporation now anticipates spending $55 million in capital expenditures during 2025, which was recently approved by the Board.
- As at December 31, 2024, the Corporation had working capital(2) of $84.5 million and net debt(2) of $2.7 million.

Financial Highlights

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

	Three-month periods ended December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Operating Results						
Revenue	**178,676**	165,332	8	**659,663**	656,341	1
Earnings	**14,098**	33,134	(57)	**54,622**	98,580	(45)
Earnings per share – diluted	**0.30**	0.68	(56)	**1.16**	1.96	(41)
Adjusted EBITDA (1)	**29,638**	35,388	(16)	**123,734**	150,717	(18)
Adjusted EBITDA per share – diluted (1)	**0.63**	0.70	(10)	**2.63**	2.86	(8)
Adjusted EBITDA as a percentage of revenue (1)	**17%**	21%		**19%**	23%	
Cash Flow						
Cash flows from operating activities	**17,676**	36,754	(52)	**96,898**	96,723	-
Funds from operations (2)	**24,305**	28,167	(14)	**99,695**	119,317	(16)
Funds from operations per share – diluted (3)	**0.51**	0.56	(9)	**2.12**	2.26	(6)
Dividends paid per share (3)	**0.20**	0.15	33	**0.80**	0.60	33
Dividends paid	**9,183**	7,277	26	**37,570**	30,189	24
Capital expenditures (3)	**15,714**	15,474	2	**83,277**	64,932	28
Excess cash flow (2)	**17,263**	22,347	(23)	**47,569**	92,813	(49)
Financial Position, December 31,						
Working capital (2)				**84,545**	93,915	(10)
Net debt (Net cash) (2)				**2,664**	(8,869)	n.m.
Shareholders' equity				**222,205**	209,969	6
Common shares outstanding				**45,506,773**	47,260,472	(4)

n.m. – not meaningful

Outlook

- In the first two months of 2025, our US division is operating at robust activity levels. With our unique suite of technology and strong reputation, we believe our US operations will continue to produce strong financial results as we continue to focus on increased RSS utilization and our proprietary Real Time RSS Communication technology. In addition, we anticipate a slight uptick in the US rig count which will also be beneficial for growth in the year ahead.
- In 2025 we will continue to dedicate resources towards our Atlas motor rental business and believe we will see growth as we expand our fleet capacity further beyond the demand within our full-service division. Additionally, the division's reputation will become more established as more operators experience the reliability and power advantages of our Atlas motors. In the sales division of our Atlas business, we foresee incremental increases in revenue in line with our customers' 2024 fleet expansion as their part requirements will increase. Although the timing of orders for parts is difficult to predict as it is based on customers' activity levels and service cycles.
- Thus far in the first quarter of 2025, our Canadian operations have seen higher activity levels and the first quarter is typically the strongest for this division. With this promising start to the year, we are cautiously optimistic that our Canadian operations will continue to produce strong results in 2025, especially with the addition of owned RSS technology and the associated Real Time RSS Communication technology. We have held an enviable market share position in Canada for numerous years and believe we will be able to maintain this position while also increasing the high margin RSS portion of activity as in the first quarter we have already seen more demand.
- In 2025, we will strive to improve our profitability through our high margin businesses and internal efficiencies. Although, the potential of tariffs and changes to the global trade environment could impact our supply chain and demand for services. We are monitoring the situation closely and our team is developing contingency plans where possible in our supply chain to reduce the impact of tariffs that may be enacted.
- We will remain committed to our ROCS to reward shareholders, leveraging our dividend and NCIB programs. We have paid $184 million in dividends since 2011 which equates to $4.93 per share. Under our NCIB programs, 28 percent of common shares outstanding as at June 30, 2017 have been purchased and cancelled. It is our intention to continue the current strategy of leveraging the NCIB as a tool to further reward shareholders and there are approximately 2.3 million shares remaining for purchase prior to its expiry in August of this year.
- We foresee generating improved excess cash flow in the 2025-year and therefore anticipate distributions made under ROCS will remain within the 70 percent of excess cash flow target.

Michael Buker, President
February 25, 2025

Overall Performance

In the fourth quarter of 2024, PHX Energy reported its highest level of quarterly revenue in the Corporation's history, generating consolidated revenue of $178.7 million (2023-quarter - $165.3 million). With increased capacity in its premium technology fleet and continued strong demand for the Corporation's unique technology offering, activity in both the US and Canadian divisions outperformed industry activity trends, which helped drive the 8 percent gain in revenue.

For the three-month period ended December 31, 2024, the Corporation's US division's revenue increased by 8 percent to a record $132.3 million compared to $122.1 million in the same 2023-quarter. The US industry's rig count declined by 6 percent compared to the fourth quarter of 2023. In comparison, PHX Energy's US operating days(3) saw a modest increase of 8 percent to 4,438 days from 4,114 in the 2023-quarter. The US division's average revenue per day(3) for directional drilling services slightly decreased by 2 percent quarter-over-quarter. Without the impact of foreign exchange, the average revenue per day for directional drilling services was down 6 percent. Softer industry activity levels in the 2024-period had a more direct impact on the Corporation's US motor rental activity and partly caused the US motor rental revenue to decrease to $9.2 million from $9.9 million in the same period in 2023. In the 2024-quarter, the US division generated $5.3 million of revenue from motor equipment and parts sold (2023-quarter - $0.9 million). Revenue from the Corporation's US division in the 2024-quarter represented 74 percent of consolidated revenue (2023 – 74 percent).

The Corporation's Canadian division generated its highest level of fourth quarter revenue since 2014. Canadian division revenue in the 2024 three-month period grew to $46.3 million, a 7 percent increase from $43.3 million in the same 2023-period. The Canadian segment recorded 3,369 operating days in the 2024-quarter, a 6 percent increase from the 3,164 operating days realized in the comparable 2023-quarter which is slightly above the Canadian industry drilling activity's 4 percent gain quarter-over-quarter. Average revenue per day(3) realized by the Canadian division was flat at $13,538 in the 2024-quarter, as compared to $13,522 in the corresponding 2023-quarter and the Corporation's Canadian motor rental division generated $0.8 million of revenue in the 2024-period (2023 - $0.5 million).

For the three-month period ended December 31, 2024, earnings were $14.1 million (2023 - $33.1 million), adjusted EBITDA(1) was $29.6 million (2023 - $35.4 million), and adjusted EBITDA represented 17 percent of consolidated revenue(1) (2023 – 21 percent). In the 2024-quarter, the Corporation recorded a tax provision of $1.7 million whereas in the 2023-quarter earnings there was a $9.5 million recovery of income taxes that primarily resulted from the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction. Additionally, as a result of fixed asset additions throughout 2024, depreciation and amortization expenses on drilling and other equipment increased by 18 percent to $11.8 million (pre-tax) in the 2024-quarter from $10.1 million (pre-tax) in the corresponding 2023-quarter. Included in the 2024 three-month period adjusted EBITDA is cash-settled share-based compensation expense of $2.2 million (2023 - $4.6 million). For the three-month period ended December 31, 2024, adjusted EBITDA excluding cash-settled share-based compensation expense was $31.8 million (2023 - $40 million). Despite higher revenue generated in the 2024-quarter, profitability declined mainly due to generally higher equipment repair expenses, weaker activity in the Corporation's high margin RSS and motor rental revenue streams in the US, and lower net gain on disposition of drilling equipment. In the 2024 three-month period, the Corporation also recognized a $2.2 million write-down of inventory to its net realizable value.

In all four quarters of 2024, PHX Energy realized strong quarterly revenue which either exceeded or was slightly below the record-breaking quarters seen in 2023. Particularly, the record revenue achieved in the fourth quarter of 2024 resulted in the 2024 annual revenue surpassing the annual revenue realized in 2023. For the year ended December 31, 2024, the Corporation's consolidated revenue increased by 1 percent to $659.7 million from $656.3 million in 2023.

Earnings for the 2024-year were $54.6 million (2023 - $98.6 million) and adjusted EBITDA(1) was $123.7 million, 19 percent of consolidated revenue (2023 - $150.7 million, 23 percent of consolidated revenue). In the 2024-year, the Corporation recorded a tax provision of $15.7 million, an increase compared to $5.1 million in 2023. Additionally, depreciation and amortization expenses in the 2024 twelve-month period increased by 15 percent to $44.8 million (pre-tax) from $38.9 million (pre-tax) in 2023. Included in the 2024-year's earnings and adjusted EBITDA is $24.6 million (pre-tax) of net gain on disposition of drilling equipment, a decrease compared to $31.3 million (pre-tax) in 2023. Apart from the lower net gain on disposition of drilling equipment realized, the decline in profitability in the 2024-year was partly due to generally higher equipment repair expenses, weaker activity in the Corporation's high margin RSS and motor rental revenue streams in the US, and higher costs of motor equipment and parts sold. In the 2024-year, the Corporation also recognized a $2.2 million write-down of inventory to its net realizable value.

Included in the 2024 twelve-month period adjusted EBITDA is cash-settled share-based compensation expense of $11.8 million (2023 - $13.5 million). Adjusted EBITDA excluding cash-settled share-based compensation expense(1) in the 2024-year was $135.5 million, 21 percent of consolidated revenue (2023 - $164.2 million, 25 percent of consolidated revenue).

As at December 31, 2024, the Corporation had working capital(2) of $84.5 million and net debt(2) of $2.7 million. The Corporation also has CAD $83.6 million and USD $16 million available to be drawn from its credit facilities.

Dividends and ROCS

On December 13, 2024, the Corporation declared a dividend of $0.20 per share payable to shareholders of record on December 31, 2024. An aggregate of $9.1 million was paid on January 15, 2025.

The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") which targets up to 70 percent of annual excess cash flow to be used for shareholder returns and includes multiple options including the dividend program and the NCIB. For the year ended December 31, 2024, excess cash flow declined primarily due to higher capital expenditures and lower proceeds on disposition of drilling equipment, however, Management continued to prioritize shareholder returns while protecting its financial position and over 70 percent of excess cash flow was distributed for shareholder returns under ROCS. The Corporation maintained its current level of dividends, paying $37.6 million in dividends to shareholders, and continued NCIB purchases, spending $20.6 million to repurchase shares under the immediately preceding and current NCIB as it believed the stock price was opportunistic. As a result, the remaining distributable balance under ROCS(2) in the 2024-year was negative $24.9 million. The Corporation will target the level of excess cash flow to be used for shareholder returns to stay within the 70 percent threshold in 2025.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Excess cash flow	**17,263**	22,347	**47,569**	92,813
70% of excess cash flow	**12,084**	15,643	**33,298**	64,969
Deduct:				
Dividends paid to shareholders	**(9,183)**	(7,277)	**(37,570)**	(30,189)
Repurchase of shares under the NCIB	**(4,859)**	(11,264)	**(20,614)**	(30,366)
Remaining distributable balance under ROCS	**(1,958)**	(2,898)	**(24,886)**	4,414

Normal Course Issuer Bid

During the third quarter of 2024, the TSX approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,363,845 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 7, 2024. The NCIB commenced on August 16, 2024 and will terminate on August 15, 2025. Purchases of common shares are to be made on the open market through the facilities of the TSX and through other alternative Canadian trading platforms. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price at the time of such purchase.

Pursuant to the immediately preceding and current NCIB, 2,141,232 common shares were purchased by the Corporation for $20.6 million including incremental transaction costs, and cancelled for the year ended December 31, 2024 (2023 – 4,032,600 shares, $30.4 million). Of the 2,141,232 common shares purchased and cancelled, 1,069,121 common shares were purchased under the immediately preceding NCIB and 1,072,111 common shares were purchased under the current NCIB.

It is the Corporation's intention to continue the current strategy of leveraging the NCIB as a tool to further reward shareholders under ROCS especially during times of market industry weaknesses.

Capital Spending

For the year ended December 31, 2024, the Corporation spent $83.3 million in capital expenditures, of which $73.4 million was spent on growing the Corporation's fleet of drilling equipment, $5.3 million was spent to replace retired assets, and $4.6 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $36.7 million, the Corporation's net capital expenditures(2) for the 2024-year were $46.5 million. Capital expenditures in the 2024-year were primarily directed towards Atlas High Performance motors ("Atlas"), Velocity Real-Time systems ("Velocity"), and Rotary Steerable Systems ("RSS"), both PowerDrive Orbit and iCruise. 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 periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Growth capital expenditures	**13,580**	7,026	**73,378**	34,382
Maintenance capital expenditures from asset retirements	**-**	3,066	**5,289**	14,609
Maintenance capital expenditures to replace downhole equipment losses	**2,134**	5,382	**4,610**	15,941
Total capital expenditures	**15,714**	15,474	**83,277**	64,932
Deduct:				
Proceeds on disposition of drilling equipment	**(10,057)**	(10,997)	**(36,741)**	(43,686)
Net capital expenditures	**5,657**	4,477	**46,536**	21,246

As at December 31, 2024, the Corporation had capital commitments to purchase drilling and other equipment for $44 million, $26.8 million of which is growth capital allocated as follows: $9 million for performance drilling motors, $8.1 million for Velocity systems, $7 million for RSS systems, and $2.7 million for other equipment. Equipment on order as at December 31, 2024 is expected to be delivered within the first half of 2025.

The Board approved a preliminary 2025 capital expenditure program of $50 million. With $2 million of the 2024 capital expenditure budget carried forward into 2025 and an additional $3 million in capital expenditures expected, the Corporation now anticipates spending $55 million in capital expenditures during 2025. Of the total expenditures, approximately half is anticipated to be spent on growth, including additional RSS systems and Real Time RSS Communications technology. The remaining half is anticipated to be spent to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations.

The Corporation currently possesses approximately 896 Atlas motors, comprised of various configurations including its 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", 9.00", 9.62", and 12.00” Atlas motors, and 135 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 89 RSS tools and the only fleet currently comprised of both the PowerDrive Orbit and iCruise systems.

Non-GAAP and Other Financial Measures

Throughout this document, 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 (net cash), 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 may be 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 document for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Footnotes throughout this document reference:

(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 document.

(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 document.

(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 document

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 December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**163,392**	154,125	6	**609,994**	598,339	2
Motor rental	**9,966**	10,332	(4)	**38,436**	47,009	(18)
Sale of motor equipment and parts	**5,318**	875	n.m.	**11,233**	10,993	2
Total revenue	**178,676**	165,332	8	**659,663**	656,341	1

n.m. – not meaningful

For the three-month period and year ended December 31, 2024, PHX Energy achieved its highest level of quarterly and annual revenue in its history. Consolidated revenue in the fourth quarter of 2024 increased by 8 percent to $178.7 million compared to $165.3 million in the corresponding 2023-quarter and annual consolidated revenue increased by 1 percent to $659.7 million compared to $656.3 million in 2023.

In the fourth quarter of 2024, both PHX Energy's US and Canadian divisions' activity outperformed industry activity trends. The average number of horizontal and directional rigs operating per day in the US declined by 6 percent to 571 in the 2024 three-month period from 608 in the corresponding 2023-period. In Canada, industry horizontal and directional drilling activity (as measured by drilling days) was 16,498 days in the 2024-quarter, a 4 percent increase from 15,895 days in the same 2023-quarter. In comparison, the Corporation's US and Canadian operating days(3) grew by 8 percent and 6 percent respectively in the 2024 three-month period. PHX Energy's consolidated operating days increased by 7 percent to 7,807 days in the 2024-quarter from 7,277 days in the 2023-quarter.

For the year-ended December 31, 2024, PHX Energy recorded 29,877 consolidated operating days(3) which is 2 percent more than the 29,192 days in the 2023-year. The US rig count declined by 13 percent whereas the Canadian industry horizontal and directional drilling activity (as measured by drilling days) increased by 5 percent year-over-year. In comparison, in the 2024 twelve-month period, Phoenix USA operating days declined by 4 percent and PHX Energy's Canadian operating days grew by 12 percent. In both the 2024 and 2023-year, the Corporation's RSS activity represented 20 to 25 percent of its US activity and 2 to 4 percent of its Canadian activity.

Average consolidated revenue per day(3) for directional drilling services period-over-period held relatively consistent with a marginal decline of 1 percent to $20,930 in the 2024-quarter (2023 – $21,178) and virtually no change at $20,418 in the 2024-year (2023 – $20,497).

Partially due to the softer US rig count, revenue generated by the Corporation's Atlas motor rental division declined by 4 percent to $10 million in the 2024-quarter (2023 - $10.3 million) and 18 percent to $38.4 million in the 2024-year (2023 - $47 million).

Additionally, the US division's motor rental activities were also negatively impacted by constraints on the servicing facility's capacity which delayed turnaround times.

For the three-month period and year ended December 31, 2024, revenue of $5.3 million and $11.2 million, respectively, were generated from the sale of Atlas motors and parts (2023 – $0.9 million and $11 million, respectively). In the 2024-quarter, there was a large customer order for motors as they added to their fleet capacity whereas in the corresponding 2023-quarter, revenue was mainly generated through the sale of parts to maintain these fleets. Due to the sporadic and cyclical nature of the customers' ordering frequency, it is expected that revenue from this line of business will fluctuate between periods.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Direct costs	**148,003**	129,240	15	**535,169**	506,236	6
Depreciation & amortization drilling and other equipment (included in direct costs)	**11,846**	10,056	18	**44,822**	38,861	15
Depreciation & amortization right-of-use asset (included in direct costs)	**867**	841	3	**3,787**	2,898	31
Gross profit as a percentage of revenue excluding depreciation & amortization (1)	**24%**	28%		**26%**	29%	

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 and year ended December 31, 2024, direct costs increased by 15 percent to $148 million (2023 - $129.2 million) and 6 percent to $535.2 million (2023 - $506.2 million), respectively.

For the 2024 three and twelve-month periods, the Corporation's depreciation and amortization on drilling and other equipment increased by 18 percent and 15 percent, respectively, mainly as a result of the additions to fixed assets throughout 2024. Apart from higher depreciation and amortization expenses on drilling and other equipment, higher direct costs in both 2024-periods primarily resulted from greater equipment repair expenses and increased costs of motor equipment and parts sold. Direct costs in both 2024-periods also included $2.2 million of write-down of inventory to its net realizable value.

For the three-month period and year ended December 31, 2024, gross profit as a percentage of revenue excluding depreciation and amortization(1) was 24 percent and 26 percent, respectively, compared to 28 percent and 29 percent in the corresponding 2023-periods. The decrease in profitability in both 2024 periods is largely attributable to weaker activity in the Corporation's high-margin motor rental business in the US, rising equipment servicing costs, and lower margins realized from the sale of motor equipment and parts.

In both 2024-periods, greater equipment repair expenses primarily resulted from rising costs of materials and services, aging fleet, increasing demands from customers on components, and higher RSS-related repair and rental costs which partly resulted from the diversification and enhancement of the RSS fleet and its related ancillary technologies. With the softer US industry activity in 2024 and extremely competitive Canadian market, the pricing environment has been inelastic which has not allowed the Corporation to implement increases to recuperate these costs, thus these costs impacted overall profitability. The Corporation currently has ongoing research and development ("R&D") initiatives aimed at reducing costs to maintain equipment, and Management believes these will aid in improving profitability once implemented successfully.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Selling, general and administrative ("SG&A") costs	**17,567**	18,004	(2)	**68,294**	68,915	(1)
Cash-settled share-based compensation (included in SG&A costs)	**2,190**	4,572	(52)	**11,774**	13,470	(13)
Equity-settled share-based compensation (included in SG&A costs)	**59**	60	(2)	**480**	491	(2)
SG&A costs excluding share-based compensation as a percentage of revenue[1]	**9%**	8%		**8%**	8%	

For the three-month period and year ended December 31, 2024, SG&A costs were $17.6 million and $68.3 million, respectively, as compared to $18 million and $68.9 million in the corresponding 2023-periods. In the 2024-quarter, the decrease in SG&A costs of 2 percent was mainly due to lower cash-settled share-based compensation expense during the period compared to the 2023-quarter. In the 2024-year, SG&A costs decreased slightly by 1 percent as increases in personnel-related costs were offset by decreases in compensation expenses related to cash-settled share-based awards.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three-month period and year ended December 31, 2024, the related compensation expense recognized by PHX Energy was $2.2 million (2023 - $4.6 million) and $11.8 million (2023 - $13.5 million), respectively. Changes in cash-settled share-based compensation expense in the 2024-periods were mainly driven by fluctuations in the Corporation's share price and the number of awards granted in the period. There were 1,599,094 retention awards outstanding as at December 31, 2024 (2023 – 2,160,151). SG&A costs excluding share-based compensation as a percentage of revenue[1] for the 2024 three-month period marginally increased to 9 percent (2023 – 8 percent) and in the twelve-month period was flat at 8 percent (2023 – 8 percent).

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Research and development expense	**1,333**	1,393	(4)	**5,337**	5,210	2

For the three-month period and year ended December 31, 2024, PHX Energy's R&D expenditures of $1.3 million and $5.3 million, respectively, were largely comparable to the $1.4 million and $5.2 million spent in the corresponding 2023-periods. The Corporation's R&D department remains focused on improving the design of existing technologies to further enhance reliability, reduce costs to operate, and continue displacing certain equipment rentals.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Finance expense	**527**	448	18	**1,948**	2,422	(20)
Finance expense lease liabilities	**512**	551	(7)	**2,213**	2,245	(1)

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period and year ended December 31, 2024, finance expenses increased to $0.5 million (2023 - $0.4 million) and decreased to $1.9 million (2023 - $2.4 million), respectively. The increase in finance expenses in the 2024-quarter was primarily due to higher drawings on the credit facilities in the period. In the 2024-year, finance expenses decreased mainly due to lower amounts of loans and borrowings outstanding for the most part of the 2024-year compared to 2023. Additionally, variable interest rates on the Corporation's operating and syndicated facilities decreased during the 2024 twelve-month period as compared to the corresponding 2023-period.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three and twelve-month periods ended December 31, 2024, finance expense lease liabilities stayed consistent at $0.5 million and $2.2 million, respectively (2023 - $0.6 million and $2.2 million, respectively), as no new significant leases were entered into both periods.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Net gain on disposition of drilling equipment	**6,021**	7,444	**24,648**	31,347
Foreign exchange gains (losses)	**(946)**	533	**(1,070)**	1,107
Provision for bad debts	**-**	-	**-**	(117)
Other income	**5,075**	7,977	**23,578**	32,337

For the three-month period and year ended December 31, 2024, the Corporation recognized other income of $5.1 million and $23.6 million, respectively (2023 - $8 million and $32.3 million, respectively). In both periods, other income was mainly comprised of net gain on disposition of drilling equipment. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life. In the 2024 quarter and year, fewer instances of high dollar valued downhole equipment losses occurred as compared to the corresponding 2023-periods resulting in lower levels of net gain on disposition of drilling equipment recognized. Fewer instances of high dollar valued downhole equipment losses can be attributed to operators generally improving their drilling practices and continuous improvements in the Corporation's technology design to avoid such instances.

Foreign exchange losses of $0.9 million and $1.1 million in the three and twelve-month periods of 2024, respectively (2023 – gains of $0.5 million and $1.1 million, respectively), were primarily due to the settlement of CAD-denominated intercompany receivables in the US.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Provision for (Recovery of) income taxes	**1,711**	(9,460)	**15,658**	5,070
Effective tax rates (3)	**11%**	n.m.	**22%**	5%

n.m. – not meaningful

For the three-month period and year ended December 31, 2024, the Corporation reported a provision for income tax of $1.7 million (2023 – recovery of income taxes of $9.5 million), and $15.7 million (2023 - $5.1 million), respectively. In the 2024-quarter, PHX Energy's effective tax rate(3) was 11 percent which is lower than the combined US federal and state corporate income tax rate of 24.5 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent mainly due to the recovery of income taxes relating to prior periods. In the 2024-year, PHX Energy's effective tax rate(3) of 22 percent is relatively in line with the combined US federal and state corporate income tax rate of 24.5 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent. Recovery of income taxes in the 2023-quarter and lower provision for income taxes in the 2023-year were primarily attributable to the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction.

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

	Three-month periods ended December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Operating Results						
Earnings	**14,098**	33,134	(57)	**54,622**	98,580	(45)
Earnings per share – diluted	**0.30**	0.68	(56)	**1.16**	1.96	(41)
Adjusted EBITDA (1)	**29,638**	35,388	(16)	**123,734**	150,717	(18)
Adjusted EBITDA per share – diluted (1)	**0.63**	0.70	(10)	**2.63**	2.86	(8)
Adjusted EBITDA as a percentage of revenue (1)	**17%**	21%		**19%**	23%	

For the three-month period and year ended December 31, 2024, the Corporation's earnings decreased by 57 percent to $14.1 million (2023 - $33.1 million) and by 45 percent to $54.6 million (2023 - $98.6 million), respectively. Earnings in the 2024 three and twelve-months period included a provision for income tax of $1.7 million and $15.7 million, respectively, while earnings in the 2023 three and twelve-month periods included a $9.5 million of recovery of income taxes and $5.1 million of provision for income taxes, respectively. Recovery of income taxes in the 2023-quarter and lower provision for income taxes in the 2023-year were primarily attributable to the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction. Additionally, as a result of fixed asset additions throughout 2024, depreciation and amortization expenses on drilling and other equipment increased to $11.8 million (pre-tax) in the 2024-quarter and $44.8 million (pre-tax) in the 2024-year (2023-quarter - $10.1 million, 2023-year - $38.9 million).

In the fourth quarter of 2024, adjusted EBITDA decreased by 16 percent to $29.6 million, 17 percent of revenue, from $35.4 million, 21 percent of revenue in the corresponding 2023-quarter. In the 2024-year, adjusted EBITDA decreased by 18 percent to $123.7 million, 19 percent of revenue, from $150.7 million, 23 percent of revenue in 2023. The decrease in profitability in both 2024-periods were primarily driven by increasing equipment repair costs, weaker RSS and motor rental activity in the US, lower margins from the sale of motor equipment and parts, as well as fewer instances of high dollar valued downhole equipment losses. Additionally, the Corporation recognized a $2.2 million write-down of inventory to its net realizable value in both 2024-periods.

Segmented Information

The Corporation reports two operating segments on a geographical basis throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US and throughout the Western Canadian Sedimentary Basin *(refer to the "Changes in Material Accounting Policies" section of the Corporation's 2024 Annual Report filed on SEDAR+(www.sedarplus.com) for the change in operating segments)*. Revenue generated through the Corporation's technology partnership and sales and lease agreement for the Middle East and North Africa ("MENA") regions are included in the US division's results.

United States

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**117,811**	111,350	6	**431,675**	440,385	(2)
Motor rental	**9,213**	9,853	(6)	**36,557**	45,145	(19)
Sale of motor equipment and parts	**5,318**	875	n.m.	**11,233**	10,993	2
Total revenue	**132,342**	122,078	8	**479,465**	496,523	(3)
Direct costs	**108,155**	93,240	16	**384,878**	380,020	1
Gross profit	**24,187**	28,838	(16)	**94,587**	116,503	(19)
Expenses:						
Selling, general and administrative expenses	**8,283**	9,326	(11)	**30,746**	30,042	2
Research and development expenses	**-**	-		**-**	-	-
Finance expense	**-**	-		**-**	-	-
Finance expense lease liability	**200**	223	(10)	**943**	929	2
Other income	**(2,548)**	(5,292)	(52)	**(16,286)**	(26,992)	(40)
Reportable segment profit before income taxes	**18,252**	24,581	(26)	**79,184**	112,524	(30)

n.m. – not meaningful

In 2024, PHX Energy's US operations were resilient to the weak industry activity as a result of its strong operational performance and the reputation of its premium technologies. In the 2024 three-month period, the US division generated its highest level of quarterly revenue in its history, $132.3 million, 8 percent higher than the $122.1 million generated in the fourth quarter of 2023. For the year ended December 31, 2024, the Corporation's US division's revenue was $479.5 million, only 3 percent lower than the record $496.5 million set in 2023.

In the fourth quarter of 2024, the average number of active horizontal and directional rigs per day in the US industry declined by 6 percent to 571 compared to an average of 608 rigs per day in the 2023-quarter. In comparison, the Corporation's US operating days(3) increased by 8 percent to 4,438 days from 4,114 days in the 2023-quarter. The US division's RSS activity represented 22 percent of its operating days which is lower compared to 26 percent represented in the 2023-quarter. For the year ended December 31, 2024, the average number of horizontal and directional rigs running on a daily basis in the US industry decreased by 13 percent to 585 rigs from 671 rigs in 2023. In comparison, the US segment's operating days were 16,667 in the 2024-year compared to 17,347 in 2023; a decrease of 4 percent. The US division's RSS activity represented 21 percent of its annual operating days which is slightly lower compared to 22 percent represented in the 2023-year.

In 2024, the Corporation continued to focus on differentiating its RSS fleet with R&D efforts directed towards its proprietary Real Time RSS Communications technologies. With this unique advantage, the Corporation expects the percentage of activity represented by the high margin RSS business line to grow further.

Horizontal and directional drilling continued to represent the majority of rigs running on a daily basis during the fourth quarter and year ended 2024. During the 2024-year, Phoenix USA was active in the Permian, Eagleford, Scoop/Stack, Marcellus, Utica, and Bakken basins. Additionally, Phoenix USA was involved with carbon capture and gas storage projects in Indiana, Michigan, Louisiana and Texas.

For the three-month period ended December 31, 2024, the US division's average revenue per day(3) for directional drilling services declined slightly by 2 percent to $26,546 from $27,069 in the 2023-quarter. For the year ended December 31, 2024, average revenue per day for directional drilling services grew slightly by 2 percent to $25,901 from $25,387 in 2023. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services decreased by 6 percent in the 2024-quarter and 1 percent in the 2024-year. The strong US dollar favorably affected the average revenue per day in both 2024-periods. Without the impact of foreign exchange, average revenue per day for directional drilling services declined in both 2024-periods primarily due to the decrease in RSS activity as a percentage of its operating days.

Unlike the Corporation's US directional drilling activity, the US division's motor rental activities were more directly impacted by the softened rig count. For the three-month period and year ended December 31, 2024, US motor rental revenue declined by 6 percent and 19 percent, respectively, to $9.2 million in the 2024-quarter and $36.6 million in the 2024-year (2023 - $9.9 million and $45.1 million, respectively). Aside from the slowdown in industry activity, the US division's motor rental activities were also negatively impacted by constraints on the servicing facility's capacity which delayed turnaround times. The Corporation continues to see the potential for growth for this business line and will be adding resources to support this division and its operations.

In the 2024 three and twelve-month periods, PHX Energy's US operations generated $5.3 million and $11.2 million of revenue from the sale of motors and parts compared to $0.9 million and $11 million in the respective 2023-periods. In the 2024-quarter, there was a large customer order for motors as they added capacity to their fleet whereas in the corresponding 2023-quarter, revenue was mainly generated through the sale of parts. Due to the sporadic and cyclical nature of the customers' ordering frequency, it is expected that revenue from this line of business will fluctuate between periods.

For the three-month period ended December 31, 2024, the US segment's reportable segment income before tax decreased by 26 percent to $18.3 million from $24.6 million in the same 2023-period. In the 2024-year, the US segment's reportable segment income before tax declined by 30 percent to $79.2 million from $112.5 million in 2023. Lower profitability in both 2024-

periods primarily resulted from higher depreciation expenses, decreases in the US division's high margin RSS and motor rental activities, greater equipment repair expenses, higher costs of motor equipment and parts sold, and fewer instances of high dollar valued downhole equipment losses.

Canada

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**45,581**	42,775	7	**178,319**	157,954	13
Motor rental	**753**	479	57	**1,879**	1,864	1
Total revenue	**46,334**	43,254	7	**180,198**	159,818	13
Direct costs	**39,848**	36,001	11	**150,291**	126,216	19
Gross profit	**6,486**	7,253	(11)	**29,907**	33,602	(11)
Expenses:						
Selling, general and administrative expenses	**4,248**	2,535	68	**15,548**	11,303	38
Research and development expenses	**-**	-	-	**-**	-	-
Finance expense	**-**	-	-	**-**	-	-
Finance expense lease liability	**293**	306	(4)	**1,193**	1,241	(4)
Other income	**(2,527)**	(2,686)	(6)	**(7,292)**	(5,345)	36
Reportable segment profit before income taxes	**4,472**	7,098	(37)	**20,458**	26,403	(23)

For the three-month period and year ended December 31, 2024, PHX Energy's Canadian operations generated revenue of $46.3 million (2023 - $43.3 million) and $180.2 million (2023 - $159.8 million), respectively, the highest level of fourth quarter and annual revenue since 2014.

In the 2024 three-month period, PHX Energy's Canadian segment's operating days[(3)] grew by 6 percent to 3,369 days from 3,164 days in the same 2023-quarter and its RSS operating days accounted for 5 percent of its activity in the 2024-period (2023 – 2 percent). In comparison, industry horizontal and directional drilling activity, as measured by drilling days, increased by 4 percent to 16,498 in the fourth quarter of 2024 from 15,895 in the 2023-quarter. For the year ended December 31, 2024, there were 62,759 horizontal and directional drilling days realized in the Canadian industry, compared to the 59,809 days realized in 2023, a 5 percent increase. In comparison, the Canadian segment's activity improved by 12 percent from 11,845 operating days in 2023 to 13,210 days in 2024. Additionally, the Canadian division's RSS operating days in the 2024-year increased to 4 percent of the segment's activity from 2 percent in 2023. In both 2024-periods, revenue growth was driven by the successful expansion of the Corporation's client base and increased RSS activity. During the 2024-year, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Ellerslie, Charlie Lake, Cummings, Sparky, Clearwater, and Scallion basins.

The Canadian division's average revenue per day(3) for directional drilling services was flat at $13,538 in the 2024-quarter, as compared to $13,522 in the corresponding 2023-quarter and increased slightly by 1 percent to $13,500 in the 2024-year from $13,336 in 2023.

PHX Energy's Canadian reportable segment profits decreased by 37 percent to $4.5 million in the 2024-quarter (2023 - $7.1 million) and 23 percent to $20.5 million in the 2024-year (2023 - $26.4 million). The decline in profitability in both 2024-periods were mainly due to higher depreciation expenses, rising personnel-related costs, greater equipment repairs, and increased RSS-related equipment rentals. In the second half of 2024, the Canadian division took delivery of additional PowerDrive Orbit RSS systems and with the additional capacity in its owned RSS fleet, the Corporation expects to reduce equipment rentals and improve RSS profitability in the upcoming year.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2024 was $49.2 million as compared to $20.3 million in 2023. During 2024, the Corporation spent $73.4 million (2023 - $34.4 million) to grow the Corporation's fleet of drilling equipment, $5.3 million (2023 - $14.6 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment, and $4.6 million (2023 - $15.9 million) was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $36.7 million (2023 - $43.7 million), the Corporation's net capital expenditures for 2024 were $46.5 million (2023 - $21.2 million).

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Growth capital expenditures	**13,580**	7,026	**73,378**	34,382
Maintenance capital expenditures from asset retirements	**-**	3,066	**5,289**	14,609
Maintenance capital expenditures to replace downhole equipment losses	**2,134**	5,382	**4,610**	15,941
Total capital expenditures	**15,714**	15,474	**83,277**	64,932
Deduct:				
Proceeds on disposition of drilling equipment	**(10,057)**	(10,997)	**(36,741)**	(43,686)
Net capital expenditures	**5,657**	4,477	**46,536**	21,246

The 2024-year capital expenditures comprised of:

- $31 million in RSS;
- $27 million in downhole performance drilling motors;
- $20.3 million in MWD systems and spare components; and
- $5 million in machinery and equipment and other assets.

The capital expenditure program undertaken in the year was primarily financed from proceeds on disposition of drilling equipment, cash flows from operating activities, and the Corporation's credit facilities when required.

The change in non-cash working capital balances of $0.4 million (use of cash) relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $1.7 million source of cash in 2023.

Financing Activities

For the year ended December 31, 2024, net cash used in financing activities was $51.1 million as compared to $77.9 million in 2023. In the 2024-year:

- dividends of $37.6 million were paid to shareholders;
- 2,141,232 common shares were repurchased and cancelled under the NCIB for $20.6 million;
- payments of $3.4 million were made towards lease liabilities;
- $9.1 million net drawings were made from the Corporation's syndicated credit facility; and
- 387,533 common shares were issued from treasury for proceeds of $1.3 million upon the exercise of share options.

As of December 31, 2024, the Corporation had CAD $11.1 million drawn on its Canadian credit facilities, USD $4 million drawn on its US operating facility, and a cash balance of $14.2 million. As at December 31, 2024, the Corporation had CAD $83.6 million and USD $16 million available from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2026.

As at December 31, 2024, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at December 31, 2024**
Debt to covenant EBITDA[i]	<3.0x	**0.14**
Interest coverage ratio[i]	>3.0x	**60.66**

[i] Definitions for these terms are included in the credit agreement filed on SEDAR+ under the heading "Material Contracts – Credit Agreements".

Under the syndicated credit agreement, in any given period, the Corporation's distributions (as defined therein) cannot exceed its maximum aggregate amount of distributions limit as defined in the Corporation's syndicated credit agreement. Distributions include, without limitation, dividends declared and paid, cash used for common shares purchased by the independent trustee in the open market and held in trust for potential settlement of outstanding retention awards, as well as cash used for common shares repurchased and cancelled under the NCIB.

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. With $2 million of the 2024 capital expenditure budget carried forward into 2025, an additional $3 million of capital expenditures expected, and the previously approved preliminary 2025 capital expenditure program of $50 million, the Corporation now anticipates spending $55 million in capital expenditures during 2025, which was recently approved by the Board. Of the total expenditures, approximately half is targeted to be spent on growth and approximately half 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. The amount expected to be allocated towards replacing equipment lost downhole could increase, should more downhole equipment losses occur throughout the year.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation’s credit facilities, if necessary. However, if a sustained period of market uncertainty, threat of trade wars, and financial market volatility persists in 2025, 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 December 31, 2024, the Corporation has commitments to purchase drilling and other equipment for $44 million. Delivery is expected to occur within the first half of 2025.

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., 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 an administrative office in Nicosia, Cyprus and also supplies technology to the Middle East regions. At the end of 2024, the Corporation has substantially completed the wind up of its operations in Albania.

As at December 31, 2024, PHX Energy had 924 full-time employees (2023 – 920) and the Corporation utilized over 139 additional field consultants in 2024 (2023 – over 175).

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

PHX Energy Services Corp.
Suite 1600, 215 9th Avenue SW, Calgary Alberta T2P 1K3
Tel: 403-543-4466   Fax: 403-543-4485   www.phxtech.com

Consolidated Statements of Financial Position

(Stated in thousands of dollars)	**December 31, 2024**	December 31, 2023
ASSETS		
Current assets:		
Cash	**$ 14,163**	$ 16,433
Trade and other receivables	**133,589**	121,334
Inventories	**63,135**	63,173
Prepaid expenses	**2,628**	2,409
Current tax assets	**502**	3,691
Total current assets	**214,017**	207,040
Non-current assets:		
Drilling and other long-term assets	**166,081**	128,263
Right-of-use assets	**24,943**	27,056
Intangible assets	**14,611**	14,200
Investments	**2,171**	3,001
Other long-term assets	**1,463**	1,284
Deferred tax assets	**-**	4,650
Total non-current assets	**209,269**	178,454
Total assets	**$ 423,286**	$ 385,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	**$ 116,668**	$ 100,438
Dividends payable	**9,102**	9,453
Current lease liabilities	**3,702**	3,234
Current tax liabilities	**-**	-
Total current liabilities	**129,472**	113,125
Non-current liabilities:		
Lease liabilities	**31,650**	33,972
Loans and borrowings	**16,827**	7,564
Deferred tax liabilities	**19,792**	16,822
Other	**3,340**	4,042
Total non-current liabilities	**71,609**	62,400
Equity:		
Share capital	**203,841**	222,653
Contributed surplus	**7,189**	7,168
Deficit	**(28,291)**	(45,695)
Accumulated other comprehensive income (AOCI)	**39,466**	25,843
Total equity	**222,205**	209,969
Total liabilities and equity	**$ 423,286**	$ 385,494

Consolidated Statements of Comprehensive Earnings

(Stated in thousands of dollars except earnings per share)

	Three-month periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
	(Unaudited)	*(Unaudited)*		
Revenue	**$ 178,676**	$ 165,332	**$ 659,663**	$ 656,341
Direct costs	**148,003**	129,240	**535,169**	506,236
Gross profit	**30,673**	36,092	**124,494**	150,105
Expenses:				
Selling, general and administrative expenses	**17,567**	18,003	**68,294**	68,915
Research and development expenses	**1,333**	1,393	**5,337**	5,210
Finance expense	**527**	448	**1,948**	2,422
Finance expense lease liability	**512**	551	**2,213**	2,245
Other income	**(5,075)**	(7,977)	**(23,578)**	(32,337)
	14,864	12,418	**54,214**	46,455
Earnings before income taxes	**15,809**	23,674	**70,280**	103,650
Provision for (recovery of) income taxes				
Current	**(3,452)**	(3,157)	**9,273**	10,435
Deferred	**5,163**	(6,303)	**6,385**	(5,365)
	1,711	(9,460)	**15,658**	5,070
Net earnings	**14,098**	33,134	**54,622**	98,580
Other comprehensive income (loss)				
Foreign currency translation, net of tax	**11,328**	(3,752)	**14,453**	(4,767)
Equity investment revaluation through AOCI	**-**	-	**(830)**	-
Total comprehensive earnings	**$ 25,426**	$ 29,382	**$ 68,245**	$ 93,813
Earnings per share – basic	**$ 0.31**	$ 0.69	**$ 1.17**	$ 1.98
Earnings per share – diluted	**$ 0.30**	$ 0.68	**$ 1.16**	$ 1.96

Consolidated Statements of Cash Flows

(Stated in thousands of dollars)	Three-month periods ended December 31, 2024	2023	Years ended December 31, 2024	2023
	(Unaudited)	*(Unaudited)*		
Cash flows from operating activities:				
Earnings	**$ 14,098**	$ 33,134	**$ 54,622**	$ 98,580
Adjustments for:				
Depreciation and amortization	**11,846**	10,056	**44,822**	38,861
Depreciation and amortization right-of-use asset	**867**	841	**3,787**	2,898
Provision for income taxes	**1,711**	(9,460)	**15,658**	5,070
Unrealized foreign exchange loss	**18**	(242)	**204**	150
Net gain on disposition of drilling equipment	**(6,021)**	(7,444)	**(24,648)**	(31,347)
Equity-settled share-based payments	**59**	60	**480**	491
Finance expense	**527**	448	**1,948**	2,422
Finance expense lease liability	**512**	551	**2,213**	2,245
Provision for bad debts	**-**	-	**-**	117
Provision for inventory obsolescence	**1,200**	773	**2,822**	2,075
Interest paid on lease liability	**(512)**	(551)	**(2,213)**	(2,245)
Interest paid	**(355)**	(555)	**(1,241)**	(2,061)
Income taxes paid	**(3,400)**	(6,325)	**(5,972)**	(14,859)
Change in non-cash working capital	**(2,874)**	15,468	**4,416**	(5,674)
Net cash from operating activities	**17,676**	36,754	**96,898**	96,723
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**10,057**	10,997	**36,741**	43,686
Acquisition of drilling and other equipment	**(15,714)**	(15,474)	**(83,277)**	(64,932)
Acquisition of intangible assets	**(863)**	(686)	**(2,228)**	(686)
Change in non-cash working capital	**4,778**	(480)	**(400)**	1,670
Net cash used in investing activities	**(1,742)**	(5,643)	**(49,164)**	(20,262)
Cash flows from financing activities:				
Repurchase of shares under the NCIB	**(4,859)**	(11,264)	**(20,614)**	(30,366)
Dividends paid to shareholders	**(9,183)**	(7,277)	**(37,570)**	(30,189)
Net proceeds from (net repayment of) loans and borrowings	**(873)**	(10,500)	**9,107**	(14,731)
Payments of lease liability	**(2,393)**	(792)	**(3,377)**	(3,013)
Purchase of shares held in trust	**-**	-	**-**	(612)
Proceeds from exercise of options	**469**	200	**1,343**	964
Change in non-cash working capital	**-**	414	**-**	-
Net cash used in financing activities	**(16,839)**	(29,219)	**(51,111)**	(77,947)
Net decrease in cash	**(905)**	1,892	**(3,377)**	(1,486)
Cash, beginning of year	**14,203**	14,845	**16,433**	18,247
Effect of movements in exchange rates on cash held	**865**	(304)	**1,107**	(328)
Cash, end of year	**$ 14,163**	$ 16,433	**$ 14,163**	$ 16,433

Cautionary Statement Regarding Forward-Looking Information and Statements

This document 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", “targets” and similar expressions are intended to identify forward-looking information or statements.

The forward-looking information and statements included in this document 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 document should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this document.

In particular, forward-looking information and statements contained in this document include without limitation, the Corporation’s intent to preserve balance sheet strength and continue to reward shareholders, including through its ROCS program, intentions for the distributable cash under ROCS to be targeted at 70 percent of excess cash flow and staying within this target in 2025, PHX Energy's intentions with respect to the NCIB and purchases thereunder and the effects of repurchases under the NCIB, the anticipated industry activity and demand for the Corporation’s services and technologies in North America, the projected capital expenditures budget for 2025, and how the budget will be allocated and funded, the timeline for delivery of equipment on order, the ability of current R&D projects to improve reliability, reduce maintenance costs and displace certain rentals and the impact that these initiatives will aide profitability, the anticipated continuation of the revenue and growth generated by both the Atlas sales and rental divisions, the ability to increase RSS utilization and percentage of activity RSS represents along with its impact that this will have on profitability particularly in the Canadian division, the anticipated continuation of PHX Energy’s quarterly dividend program and the amounts of dividends, and the anticipated impact of potential new or increased tariffs that may be imposed by the US administration and any retaliatory actions that may be taken by Canada or other nations, and the Corporation ability to reduce this impact in its supply chain.

The above are stated under the headings: “Financial Results”, “Overall Performance”, “Dividends and ROCS”, “Capital Spending”, “Revenue”, “Segmented Information” and “Capital Resources”. In addition, all information contained under the heading “Outlook” of this document may contain forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this document 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 2025 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation; that there will be no adverse tariff events including intentional tariff wars that could have a significant impact on the markets in which the Corporation operates; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the potential impact of trade wars, pandemics, the Russian-Ukrainian war, Middle-East conflict and other world events 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, and inflationary pressures 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.sedarplus.ca) or at the Corporation's website. The forward-looking statements and information contained in this document 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.

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) Adjusted EBITDA

Adjusted EBITDA, 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 provides supplemental information to earnings 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 should not be construed as an alternative measure to earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

The following is a reconciliation of earnings to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Earnings:	**14,098**	33,134	**54,622**	98,580
Add:				
Depreciation and amortization drilling and other equipment	**11,846**	10,056	**44,822**	38,861
Depreciation and amortization right-of-use asset	**867**	841	**3,787**	2,898
Provision for (recovery of) income taxes	**1,711**	(9,460)	**15,658**	5,070
Finance expense	**527**	448	**1,948**	2,422
Finance expense lease liability	**512**	551	**2,213**	2,245
Equity-settled share-based payments	**59**	60	**480**	491
Unrealized foreign exchange loss (gain)	**18**	(242)	**204**	150
Adjusted EBITDA	**29,638**	35,388	**123,734**	150,717

b) Adjusted EBITDA Per Share - Diluted

Adjusted EBITDA 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 per share - dilutive is based on the adjusted EBITDA as reported in the table above divided by the diluted number of shares outstanding as quantified in Note 10(b) in the Notes to the Consolidated Financial Statements.

c) Adjusted EBITDA as a Percentage of Revenue

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

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

Adjusted EBITDA excluding cash-settled share-based compensation expense is calculated by adding cash-settled share-based compensation expense to adjusted EBITDA as described above. Management believes that this measure provides supplemental information to earnings 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 to adjusted EBITDA excluding cash-settled share-based compensation expense:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Earnings:	**14,098**	33,134	**54,622**	98,580
Add:				
Depreciation and amortization drilling and other equipment	**11,846**	10,056	**44,822**	38,861
Depreciation and amortization right-of-use asset	**867**	841	**3,787**	2,898
Provision for (recovery of) income taxes	**1,711**	(9,460)	**15,658**	5,070
Finance expense	**527**	448	**1,948**	2,422
Finance expense lease liability	**512**	551	**2,213**	2,245
Equity-settled share-based payments	**59**	60	**480**	491
Unrealized foreign exchange loss	**18**	(242)	**204**	150
Cash-settled share-based compensation expense	**2,190**	4,572	**11,774**	13,470
Adjusted EBITDA excluding cash-settled share-based compensation expense	**31,828**	39,960	**135,508**	164,187

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

Adjusted EBITDA excluding cash-settled share-based compensation expense as a percentage of revenue is calculated by dividing adjusted EBITDA excluding cash-settled share-based compensation expense as reported above by revenue as stated on the 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 December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Revenue	**178,676**	165,332	**659,663**	656,341
Direct costs	**148,003**	129,240	**535,169**	506,236
Gross profit	**30,673**	36,092	**124,494**	150,105
Depreciation & amortization drilling and other equipment (included in direct costs)	**11,846**	10,056	**44,822**	38,861
Depreciation & amortization right-of-use asset (included in direct costs)	**867**	841	**3,787**	2,898
	43,386	46,989	**173,103**	191,864
Gross profit as a percentage of revenue excluding depreciation & amortization	**24%**	28%	**26%**	29%

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 December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
SG&A Costs	**17,567**	18,004	**68,294**	68,915
Deduct:				
Share-based compensation (included in SG&A)	**2,249**	4,632	**12,254**	13,961
	15,318	13,372	**56,040**	54,954
Revenue	**178,676**	165,332	**659,663**	656,341
SG&A costs excluding share-based compensation as a percentage of revenue	**9%**	8%	**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 December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Cash flows from operating activities	**17,676**	36,754	**96,898**	96,723
Add (deduct):				
Changes in non-cash working capital	**2,874**	(15,467)	**(4,416)**	5,674
Interest paid	**355**	555	**1,241**	2,061
Income taxes paid	**3,400**	6,325	**5,972**	14,859
Funds from operations	**24,305**	28,167	**99,695**	119,317

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 December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Cash flows from operating activities	**17,676**	36,754	**96,898**	96,723
Add (deduct):				
Changes in non-cash working capital	**2,874**	(15,467)	**(4,416)**	5,674
Interest paid	**355**	555	**1,241**	2,061
Income taxes paid (received)	**3,400**	6,325	**5,972**	14,859
Cash payment on leases	**(1,385)**	(1,343)	**(5,590)**	(5,258)
	22,920	26,824	**94,105**	114,059
Proceeds on disposition of drilling equipment	**10,057**	10,997	**36,741**	43,686
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**(2,134)**	(8,448)	**(9,899)**	(30,550)
Net proceeds	**7,923**	2,549	**26,842**	13,136
Growth capital expenditures	**(13,580)**	(7,026)	**(73,378)**	(34,382)
Excess cash flow	**17,263**	22,347	**47,569**	92,813

c) **Working Capital**

Working capital is defined as the Corporation's current assets less its current liabilities and is used to assess the Corporation's short-term liquidity. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses working capital to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating working capital may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

		December 31,
	2024	2023
Current assets	**214,017**	207,040
Deduct:		
Current liabilities	**(129,472)**	(113,125)
Working capital	**84,545**	93,915

d) Net Debt (Net Cash)

Net debt is defined as the Corporation's loans and borrowings less cash. 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 loans and borrowings and cash to net debt:

(Stated in thousands of dollars)

		December 31,
	2024	2023
Loans and borrowings	**16,827**	7,564
Deduct:		
Cash	**(14,163)**	(16,433)
Net debt (Net cash)	**2,664**	(8,869)

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 capital expenditures 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 December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Growth capital expenditures	**13,580**	7,026	**73,378**	34,382
Maintenance capital expenditures from asset retirements	**-**	3,066	**5,289**	14,609
Maintenance capital expenditures to replace downhole equipment losses	**2,134**	5,382	**4,610**	15,941
Total capital expenditures	**15,714**	15,474	**83,277**	64,932
Deduct:				
Proceeds on disposition of drilling equipment	**(10,057)**	(10,997)	**(36,741)**	(43,686)
Net capital expenditures	**5,657**	4,477	**46,536**	21,246

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)

	Three-month periods ended December 31,		Years ended December 31,	
	2024	2023	**2024**	2023
Excess cash flow	**17,263**	22,347	**47,569**	92,813
70% of excess cash flow	**12,084**	15,643	**33,298**	64,969
Deduct:				
Dividends paid to shareholders	**(9,183)**	(7,277)	**(37,570)**	(30,189)
Repurchase of shares under the NCIB	**(4,859)**	(11,264)	**(20,614)**	(30,366)
Remaining Distributable Balance under ROCS	**(1,958)**	(2,898)	**(24,886)**	4,414

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.

"Dividends declared per share" is comprised of dividends declared, 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 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 as quantified in Note 10(b) in the Notes to the Consolidated Financial Statements.

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 Consolidated Statements of Cash Flows and Note 5(b) in the Notes to the 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.