2024 Q1 Report

PHX

ENERGY SERVICES CORP.

Photo Credit: Eric Robinson, US MWD Operator & Alberto Gonzalez, US Directional Driller

Management's Discussion and Analysis

First Quarter Report for the three-month periods ended March 31, 2024 and 2023

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 2024 unaudited interim first 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 2024 first quarter report, and the Corporation's 2023 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 2023 annual 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.sedarplus.ca. This MD&A has been prepared taking into consideration information available up to and including May 7, 2024.

PHX Energy's Interim Financial Report for the three-month periods ended March 31, 2024 and 2023 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 May 7, 2024.

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.

First Quarter Highlights

- For the three-month period ended March 31, 2024, PHX Energy generated consolidated revenue of $166.1 million which is slightly higher than the consolidated revenue generated in the first quarter of 2023 and is the second highest level in the Corporation's history. This achievement resulted from strong Canadian results that outpaced the industry trend and despite the 18 percent decline in the US rig count impacting the Corporation's US results. Consolidated revenue in the 2024-quarter included $8.2 million of motor rental revenue and $2.8 million of motor equipment and parts sold (2023 - $10.9 million and $0.7 million, respectively).

- In the first quarter of 2024, adjusted EBITDA(1) was $35 million, 21 percent of consolidated revenue(1), as compared to $37 million, 22 percent of consolidated revenue, in the same 2023-quarter. Included in the 2024-quarter's adjusted EBITDA is $5.7 million of cash-settled share-based compensation expense (2023 - $1.4 million). Adjusted EBITDA excluding cash-settled share-based compensation expense(1) in the first quarter of 2024 was $40.7 million, 25 percent of consolidated revenue(1) (2023 - $38.4 million, 23 percent of consolidated revenue).

- Earnings in the 2024 three-month period were $17.5 million, $0.37 per share, as compared to $22.4 million, $0.42 per share, in the same 2023-period.

- PHX Energy's US division's revenue in the first quarter of 2024 was $114.2 million, 9 percent lower compared to the $125.7 million in the 2023-quarter and represented 69 percent of consolidated revenue (2023 – 76 percent of

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consolidated revenue). During the quarter, the US industry activity declined which affected the Corporation's US division's results.

- PHX Energy's Canadian division reported $52 million of quarterly revenue, 29 percent higher compared to $40.4 million in the 2023-quarter and the highest level in the last ten years.
- In the 2024 three-month period, the Corporation generated excess cash flow[(2)] of $7.4 million, after deducting capital expenditures of $29.6 million offset by proceeds on disposition of drilling and other equipment of $12.3 million.
- For the three-month period ended March 31, 2024, PHX Energy paid $9.5 million in dividends which is 24 percent higher than the dividend amount paid in the same 2023-period. On March 15, 2024, the Corporation declared a dividend of $0.20 per share or $9.5 million payable on April 15, 2024. There were no common shares purchased under the current NCIB in the three-month period ended March 31, 2024 (2023 - nil).
- As at March 31, 2024, the Corporation had working capital[(2)] of $88.7 million and net cash[(2)] of $5.8 million.

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Financial Highlights

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

	Three-month periods ended March 31,		
	2024	2023	% Change
Operating Results	***(unaudited)***	*(unaudited)*	
Revenue	**166,123**	166,022	-
Earnings	**17,454**	22,417	(22)
Earnings per share – diluted	**0.37**	0.42	(12)
Adjusted EBITDA[1]	**35,033**	37,000	(5)
Adjusted EBITDA per share – diluted[1]	**0.74**	0.69	7
Adjusted EBITDA as a percentage of revenue[1]	**21%**	22%	
Cash Flow			
Cash flows from operating activities	**11,167**	3,905	186
Funds from operations[2]	**26,141**	26,737	(2)
Funds from operations per share – diluted[3]	**0.55**	0.50	10
Dividends paid per share[3]	**0.20**	0.15	33
Dividends paid	**9,453**	7,636	24
Capital expenditures	**29,640**	18,583	60
Excess cash flow[2]	**7,431**	19,232	(61)
Financial Position	**Mar 31 '24**	Dec 31 '23	
Working capital[2]	**88,679**	93,915	(6)
Net debt (Net cash)[2]	**(5,833)**	(8,869)	(34)
Shareholders' equity	**222,310**	209,969	6
Common shares outstanding	**47,488,005**	47,260,472	-

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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 (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 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 first quarter of 2024, the Corporation continued to generate strong operating and financial results on the back of two consecutive record years.

- We believe the declining US rig count has stabilized and this new level of activity will be sustained in the upcoming quarters. In the second quarter our US RSS activity has rebounded from the slower start at the beginning of the year. We believe that our US operations will continue to produce strong results and any future increases in the rig count will create an additional upside.
- During the first quarter, we made strides in our marketing strategy for our motor sales and rental division. We have established a separate brand, Atlas Downhole Technology, with experienced marketing and operations personnel now in place and dedicated to its growth. We believe that the steps taken in the first quarter and the large portion of our 2024 capital expenditures budget dedicated to Atlas will aid us in expanding this division's market presence.
- Our Canadian operations continue to benefit from the addition of new technologies and the increase in our RSS related activity. Our team has successfully grown our market share in key Canadian basins and this is softening the impact of the typical spring break-up, as we have multiple clients whose operations are more resilient to the seasonal slowdown. We foresee the second quarter building off the success of the last two record quarters in Canada and being strong on a historical basis. We are cautiously optimistic for the third and fourth quarters in Canada.
- In the first quarter of 2024, we ordered a large portion of the planned capital expenditures to ensure we received delivery of items in a timely manner, which impacted the level of excess cash flow(2) achieved. We believe in the future quarters the excess cash flow achieved will increase. We are committed to continue rewarding shareholders through our dividend and NCIB program as we remain dedicated to delivering value to our shareholders.

We are proud of our first quarter achievements and believe they are once again a testament to the strength of operations and technology.

Michael Buker, President

May 7, 2024

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Financial Results

In the 2024 three-month period, PHX Energy generated consolidated revenue of $166.1 million which is marginally higher than the $166 million generated in the same 2023-period and is the second highest quarterly level in the Corporation's history. This was achieved primarily due to strong Canadian results and despite the lower US rig count.

For the three-month period ended March 31, 2024, the Corporation's US division's revenue decreased by 9 percent to $114.2 million as compared to $125.7 million in the same 2023-period. The US industry activity declined 18 percent as compared to the first quarter of 2023, although the steady decline that occurred through 2023 did level off with the US rig count being flat when compared to the fourth quarter of last year. In line with lower US industry drilling activity, PHX Energy's US operating days declined by 14 percent from 4,820 in the first quarter of 2023 to 4,168 in the 2024-quarter while average revenue per day(3) for directional drilling services improved by 4 percent quarter-over-quarter. The Corporation's US motor rental and sales divisions generated $7.9 million and $2.8 million of revenue, respectively in the first quarter of 2024 (2023 - $10.2 million and $0.7 million, respectively). Revenue from PHX Energy's US segment represented 69 percent of consolidated revenue in the 2024 three-month period (2023 - 76 percent).

In the 2024 three-month period, the Corporation's Canadian division generated revenue of $52 million, which is the highest level since the fourth quarter of 2014 and is 29 percent greater than the $40.4 million generated in the same 2023-period. During the 2024-quarter, despite the flat Canadian industry activity, PHX Energy's Canadian operating days grew by 23 percent to 3,858 days from the 3,135 operating days in the comparable 2023-quarter. Average revenue per day realized by the Canadian segment also improved by 6 percent over the first quarter of 2023. These results were largely driven by the Canadian segment's growing Rotary Steerable System ("RSS") activity and further expansion of its client base.

For the three-month period ended March 31, 2024, earnings were $17.5 million (2023 - $22.4 million), adjusted EBITDA(1) was $35 million (2023 - $37 million), and adjusted EBITDA represented 21 percent of consolidated revenue(1) (2023 – 22 percent). Included in the 2024-quarter earnings is a $5.3 million provision for income taxes (2023 - $3.5 million). Included in the 2024 three-month period adjusted EBITDA is cash-settled share-based compensation expense of $5.7 million (2023 - $1.4 million). For the three-month period ended March 31, 2024, adjusted EBITDA excluding cash-settled share-based compensation expense(1) is $40.7 million, 25 percent of consolidated revenue (2023 - $38.4 million, 23 percent of consolidated revenue).

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As at March 31, 2024, the Corporation had working capital[(2)] of $88.7 million and net cash[(2)] of $5.8 million. The Corporation also has CAD $87 million and USD $20 million available to be drawn from its credit facilities.

Dividends and ROCS

On March 15, 2024, the Corporation declared a dividend of $0.20 per share payable to shareholders of record at the close of business on March 28, 2024. This is 33 percent higher than the dividend of $0.15 per share declared in the 2023-quarter. An aggregate of $9.5 million was paid on April 15, 2024.

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"). In the 2024-quarter, 70 percent of PHX Energy's excess cash flow[(2)] was $5.2 million (2023 - $13.5 million) and $9.5 million (2023 - $7.6 million) was paid in dividends to shareholders. The decrease in excess cash flow was mainly due to higher capital expenditures spent in the 2024 three-month period. In the 2024-quarter, the remaining distributable balance under ROCS[(2)] was negative $4.3 million (2023 - positive $5.8 million). We expect that future cash flow will compensate for the negative balance in the quarter and anticipate the remaining distributable balance under ROCS to be positive in the latter half of the year.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2024	2023
Excess cash flow[(2)]	**7,431**	19,232
70% of excess cash flow	**5,202**	13,462
Deduct:		
Dividends paid to shareholders	**(9,453)**	(7,636)
Repurchase of shares under the NCIB	**-**	-
Remaining Distributable Balance under ROCS[(2)]	**(4,251)**	5,826

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. 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.

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Pursuant to the current NCIB, no common shares were purchased by the Corporation and cancelled in the three-month period ended March 31, 2024 (2023 - nil).

Capital Spending

In the first quarter of 2024, the Corporation spent $29.6 million in capital expenditures, of which $24.2 million was spent on growing the Corporation's fleet of drilling equipment, $4.1 million was spent to replace retired assets, and $1.3 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $12.3 million, the Corporation's net capital expenditures(2) for the 2024-quarter were $17.3 million. Capital expenditures in the 2024-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 periods ended March 31,	
	2024	2023
Growth capital expenditures(3)	**24,224**	9,955
Maintenance capital expenditures(3) from asset retirements	**4,141**	4,857
Maintenance capital expenditures(3) from downhole equipment losses	**1,275**	3,771
	29,640	18,583
Deduct:		
Proceeds on disposition of drilling equipment	**(12,301)**	(12,417)
Net capital expenditures(2)	**17,339**	6,166

As at March 31, 2024, the Corporation had capital commitments to purchase drilling and other equipment for $21.8 million, $18.6 million of which is growth capital and includes $11.3 million for performance drilling motors, $2.4 million for Velocity systems, and $4.9 million for other equipment. Equipment on order as at March 31, 2024 is expected to be delivered within the year.

The approved capital expenditure budget for the 2024-year, excluding proceeds on disposition of drilling equipment, is $75 million, which includes $5 million of carryover from the 2023 budget. Of the total expenditures, $47 million is expected to be allocated to growth capital and the remaining $28 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.

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The Corporation currently possesses approximately 768 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", 9.00", 9.62", and 12.00" Atlas motors, and 118 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 64 RSS tools and the only fleet currently comprised of both the PowerDrive Orbit and iCruise systems.

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 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-Month Period Ended March 31, 2024

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 March 31,		
	2024	2023	% Change
Directional drilling services	**155,058**	154,473	-
Motor rental	**8,246**	10,860	(24)
Sale of motor equipment and parts	**2,819**	689	309
Total revenue	**166,123**	166,022	-

For the three-month period ended March 31, 2024, the Corporation's consolidated revenue was $166.1 million, relatively flat as compared to the $166 million in the first quarter of 2023 and the second highest level of quarterly revenue on record.

In the first quarter of 2024, the US industry rig count stabilized, with the average of 610 horizontal and directional rigs operating per day being virtually identical to the daily average of 608 horizontal and directional rigs in the fourth quarter of 2023; however, quarter-over-quarter the daily average decreased 18 percent from 742 rigs in the first quarter of 2023. (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, https://rigcount.bakerhughes.com/na-rig-count). In Canada, industry horizontal and directional drilling activity (as measured by drilling days) was 17,714 days in the 2024-quarter, only a 1 percent decline from 17,829 days in the same 2023-quarter (Source: Daily Oil Bulletin, hz-dir days 240331). Despite the US rig count driving an overall weakening in North American industry activity, PHX Energy's activity levels held steady with consolidated operating days slightly increasing by 1 percent to 8,025 days in the first quarter of 2024 compared to 7,955 days in the same 2023-quarter. The Corporation's US activity declined in line with the industry, whereas PHX Energy's Canadian drilling activity outpaced the industry trend as additional market share was captured in the 2024-period.

Average consolidated revenue per day[3] for directional drilling services was relatively unchanged from the first quarter of 2023 at $19,322 in the 2024 three-month period compared to $19,420. During the 2024-quarter, both the US and Canadian

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segments realized improvements in average revenue per day[3] for directional drilling services. However, as PHX Energy's Canadian activity increased as a portion of its consolidated activity in the 2024-period, a greater percentage of consolidated activity was at the lower average revenue per day for directional drilling services in Canada.

In the 2024-quarter, revenue generated by the Atlas motor rental division declined by 24 percent to $8.2 million from $10.9 million in the same 2023-period. The decrease was largely due to the lower US industry rig count. For the three-month period ended March 31, 2024, revenue of $2.8 million was generated from the sale of Atlas motors and parts (2023 – 0.7 million).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2024	2023	% Change
Direct costs	**129,044**	131,988	(2)
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,319**	9,317	11
Depreciation & amortization right-of-use asset (included in direct costs)	**849**	407	109
Gross profit as a percentage of revenue excluding depreciation & amortization[1]	**29%**	26%	

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.

In line with the consistent level of consolidated revenue and activity, direct costs in the 2024 three-month period were relatively the same level as the corresponding 2023-period, decreasing by only 2 percent to $129 million from $132 million in the 2023-period. In the 2024-quarter, depreciation and amortization expenses on drilling and other equipment increased by 11 percent mainly due to the volume of fixed assets acquired as part of PHX Energy's 2023 and 2024 capital expenditure program. This increase was offset by lower motor repair expenses that largely resulted from the decline in Atlas motor rental activity in the US.

In the 2024 three-month period, gross profit as a percentage of revenue excluding depreciation and amortization[1] improved to 29 percent from 26 percent in the corresponding 2023-period. Greater profitability in the period was largely driven by the increased utilization of the Corporation's premium technologies, particularly increased deployment of Velocity as a result of

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enhancements developed by PHX Energy's Research and Development ("R&D") department that better integrate Velocity and newly acquired RSS. Increased profits from the Corporation's Atlas sales division also contributed to the improved margins.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2024	2023	% Change
Selling, general and administrative ("SG&A") costs	**21,017**	15,556	35
Cash-settled share-based compensation (included in SG&A costs)	**5,710**	1,374	316
Equity-settled share-based compensation (included in SG&A costs)	**100**	101	(1)
SG&A costs excluding share-based compensation as a percentage of revenue[(1)]	**9%**	8%	

For the three-month period ended March 31, 2024, SG&A costs were $21 million, an increase of 35 percent as compared to $15.6 million in the corresponding 2023-period. Higher SG&A costs in the 2024-period were primarily due to greater cash-settled share-based compensation and rising personnel-related costs.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three-month period ended March 31, 2024, the related compensation expense recognized by PHX Energy was $5.7 million (2023 - $1.4 million). Changes in cash-settled share-based compensation expense in the 2024-period were mainly driven by fluctuations in the Corporation's share price which increased, and the number of awards granted in the period. There were 1,527,685 retention awards outstanding as at March 31, 2024 (2023 – 2,083,553). SG&A costs excluding share-based compensation as a percentage of revenue[(1)] in the 2024 three-month period was 9 percent as compared to 8 percent in the corresponding 2023-period.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2024	2023	% Change
Research and development expense	**1,202**	1,256	(4)

For the three-month period ended March 31, 2024, PHX Energy's R&D expenditures declined slightly by 4 percent to $1.2 million from $1.3 million in the corresponding 2023-period. During the 2024-quarter, the Corporation's R&D department remained focused on key projects, particularly on developing supplementary technologies that would create value added capabilities within PHX Energy's suite of premium fleet. The Corporation also remained committed in supporting new and ongoing initiatives to continuously improve the reliability of equipment and reduce costs to operations.

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(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2024	2023	% Change
Finance expense	**334**	667	(50)
Finance expense lease liabilities	**541**	576	(6)

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period ended March 31, 2024, finance expenses decreased to $0.3 million (2023 - $0.7 million) mainly due to decreased drawings on the credit facilities in the period.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three-month period ended March 31, 2024, finance expense lease liabilities decreased by 6 percent primarily due to expired leases.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2024	2023
Net gain on disposition of drilling equipment	**8,886**	9,956
Foreign exchange gains (losses)	**(129)**	23
Other income	**8,757**	9,979

For the three-month periods ended March 31, 2024 and 2023, the Corporation recognized other income of $8.8 million and $10 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-period, fewer instances of high dollar valued downhole equipment losses occurred as compared to the corresponding 2023-period which resulted in lower 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 2024.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,	
	2024	2023
Provision for income taxes	**5,288**	3,541
Effective tax rates[3]	**23%**	14%

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For the three-month period ended March 31, 2024, the Corporation reported income tax provision of $5.3 million (2023 - $3.5 million). In the 2024-quarter, PHX Energy's effective tax rate(3) is 23 percent which is in line with the combined US federal and state corporate income tax rate of 21 percent and combined Canadian federal and provincial income tax rate of 23 percent.

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 this MD&A for the change in operating segments)*.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2024	2023	% Change
Directional drilling services	**103,406**	114,746	(10)
Motor rental	**7,925**	10,231	(23)
Sale of motor equipment and parts	**2,819**	689	309
Total US revenue	**114,150**	125,666	(9)
Reportable segment profit before tax	**16,594**	15,923	4

For the three-month period ended March 31, 2024, PHX Energy's US operations generated revenue of $114.2 million, a 9 percent decrease compared to $125.7 million in the 2023-quarter. The decrease in revenue was largely due to the lower US industry activity in the 2024-quarter relative to the first quarter of 2023.

In the 2024 three-month period, the US industry horizontal and directional rig count decreased by 18 percent with 610 active rigs per day as compared to 742 rigs per day in the first quarter of 2023, but remained flat when compared to the fourth quarter of 2023. (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, https://rigcount.bakerhughes.com/na-rig-count). The continued demand for PHX Energy's premium technologies remained strong and created some resilience to the industry's trajectory. The Corporation's US directional drilling activity decreased by only 14 percent to 4,168 operating days in the first quarter of 2024 compared to 4,820 days in the same 2023-quarter and has increased by 1 percent as compared to the 4,114 days in the fourth quarter of 2023. The US division's average revenue per day(3) for directional drilling services marginally improved by 4 percent to $24,812 in the first quarter of 2024 from $23,806 in the corresponding 2023-quarter.

(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.

In the 2024 three-month period, the US segment's Atlas motor rental activity was weaker due to the softer market conditions. In the 2024-quarter, the Corporation generated motor rental revenue of $7.9 million, a 23 percent decrease from $10.2 million in the same 2023-quarter.

For the three-month period ended March 31, 2024, the US segment realized reportable segment income before tax of $16.6 million which is 4 percent higher than $15.9 million in the corresponding 2023-period. During the 2024-quarter, the technology enhancements developed to better integrate Velocity with RSS increased fleet utilization which contributed to reduced costs and improved profitability. Margins from the sale of Atlas motors and parts also contributed to the increased profitability in the 2024-period. For the three-month period ended March 31, 2024, PHX Energy generated $2.8 million of revenue from this line of business (2023 - $0.7 million).

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2024	2023	% Change
Directional drilling services	**51,652**	39,727	30
Motor rental	**321**	629	(49)
Total Canadian revenue	**51,973**	40,356	29
Reportable segment profit before tax	**8,674**	8,293	5

In the first quarter of 2024, PHX Energy's Canadian operations generated revenue of $52 million, its highest level of quarterly revenue since the fourth quarter of 2014 and a 29 percent increase compared to $40.4 million generated in the 2023 first quarter. Strong quarterly revenue generated in the 2024-period was largely driven by growth in both the Canadian segment's client base and its market presence as an RSS provider.

For the three-month period ended March 31, 2024, the Canadian division's average revenue per day(3) for directional drilling services increased by 6 percent to $13,390 from $12,674 in the corresponding 2023-period. The Canadian segment's operating days in the 2024-quarter grew by 23 percent to 3,858 days as compared to 3,135 days in the corresponding 2023-quarter. In comparison, industry horizontal and directional drilling activity (as measured by drilling days) declined by 1 percent to 17,714 days in the 2024 three-month period (Source: Daily Oil Bulletin, hz-dir days 240331). During the 2024-quarter, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, Ellerslie, Charlie Lake, and Scallion basins.

(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 March 31, 2024, the Corporation's Canadian division recognized reportable segment profit before tax of $8.7 million (2023 – $8.3 million). Despite increased revenue and activity, profitability marginally increased primarily due to higher equipment rentals associated with greater RSS activity and an overall increase in equipment repair costs.

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2024	2023
Cash flows from operating activities	**11,167**	3,905
Funds from operations(2)	**26,141**	26,737

	Mar. 31, '24	Dec. 31, '23
Working capital(2)	**88,679**	93,915
Net debt (Net cash)(2)	**(5,833)**	(8,869)

In the 2024 three-month period, cash flow from operating activities increased to $11.2 million as compared to $3.9 million in the corresponding 2023-period. The increase was primarily due to the higher levels of trade and other payables at the end of the 2024-quarter. For the three-month period ended March 31, 2024, funds from operations were $26.1 million as compared to $26.7 million in the comparable 2023-period. Slightly lower funds from operations were primarily driven by decreased levels of profitability in the 2024-period.

As at March 31, 2024, the Corporation had working capital of $88.7 million, a decrease of $5.2 million from the $93.9 million reported at December 31, 2023. The decrease in working capital at March 31, 2024 was largely due to higher levels of trade and other payables. Net cash(2) as at March 31, 2024 was $5.8 million, a decrease of $3.1 million from the net cash of $8.9 million reported at December 31, 2023. The decrease in net cash was partly due to dividends paid and virtually nil net drawings from credit facilities in the 2024-quarter.

(2) Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

Cash Flow, Dividends, and ROCS

In December 2020, PHX Energy reinstated its quarterly dividend program. In November 2022, PHX Energy's Board approved a refinement of its shareholder return strategy in the form of a Return of Capital Strategy ("ROCS") which will potentially allow up to 70 percent of 2024 excess cash flow[(2)] to be used for shareholder returns, including the base dividend program, share buy backs and potential special dividends. The Board will continually review the dividend program and its ROCS and take into consideration, without limitation, the Corporation's financial performance, forecasted activity levels and the industry outlook. The actual amount of future quarterly dividends, if any, remains subject to the approval of and declaration by the Board. The Board reviews the Corporation's dividend policy in conjunction with their review of quarterly financial and operating results. The Corporation's ability to maintain the current level of dividends to its shareholders is dependent upon the realization of cash flow from operating activities, among other considerations, and if the Corporation does not meet its budgeted cash flow from operating activities, dividends to shareholders may be reduced or suspended entirely.

For the three-month period ended March 31, 2024, dividend payments of $9.5 million were financed from the Corporation's funds from operations[(2)] (2023 - $7.6 million). On March 15, 2024, the Corporation declared a dividend of $0.20 per common share, which is 33 percent higher than the dividend declared on March 15, 2023. An aggregate of $9.5 million was paid on April 15, 2024 to shareholders of record at the close of business on March 28, 2024.

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. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the current NCIB, no common shares were purchased by the Corporation and cancelled in the three-month period ended March 31, 2024 (2023 - nil).

[(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 March 31, 2024 was $4.9 million as compared to $5 million in the 2023-period. During the first quarter of 2024, the Corporation spent $24.2 million (2023 - $10 million) to grow the Corporation's fleet of drilling equipment, $4.1 million (2023 - $4.9 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment, and $1.3 million was used to replace equipment lost downhole during drilling operations (2023 - $3.8 million). With proceeds on disposition of drilling and other equipment of $12.3 million (2023 - $12.4 million), the Corporation's net capital expenditures(2) for the 2024-quarter were $17.3 million (2023 - $6.2 million).

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2024	2023
Growth capital expenditures(3)	**24,224**	9,955
Maintenance capital expenditures(3) from asset retirements	**4,141**	4,857
Maintenance capital expenditures(3) from downhole equipment losses	**1,275**	3,771
	29,640	18,583
Deduct:		
Proceeds on disposition of drilling equipment	**(12,301)**	(12,417)
Net capital expenditures(2)	**17,339**	6,166

The 2024-period capital expenditures comprised of:

- $11 million in downhole performance drilling motors;
- $11.7 million in RSS;
- $6.5 million in MWD systems and spare components; and
- $0.4 million in machinery and equipment and other assets.

The change in non-cash working capital balances of $12.5 million (source of cash) for the three-month period ended March 31, 2024, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $1.1 million (source of cash) for the three-month period ended March 31, 2023.

(2) Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.
(3) Supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

Financing Activities

For the three-month period ended March 31, 2024, net cash used in financing activities was $9.6 million as compared to $1.6 million in the 2023-period. In the 2024-period:

- dividends of $9.5 million were paid to shareholders;
- $0.1 million net repayments were made towards the Corporation's syndicated credit facility;
- payments of $0.8 million were made towards lease liabilities; and
- 227,533 common shares were issued from treasury for proceeds of $0.7 million upon the exercise of share options.

Capital Resources

As of March 31, 2024, the Corporation had CAD $7.5 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $13.4 million. As at March 31, 2024, the Corporation had CAD $87 million and USD $20 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 March 31, 2024, the Corporation was in compliance with all its financial covenants. 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 $5 million carried over from the 2023 capital expenditure budget and the previously announced preliminary 2024 capital expenditure program of $70 million, PHX Energy anticipates spending $75 million of capital expenditures in 2024. Of the total expenditures, $47 million is targeted to be spent on growth and $28 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. The amount expected to be allocated towards replacing equipment lost downhole could increase should more downhole equipment losses occur throughout the year.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2024, 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 March 31, 2024, the Corporation has commitments to purchase drilling and other equipment for $21.8 million. Deliveries are expected to occur throughout the rest of the 2024-year.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at March 31, 2024 and 2023.

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, 2023.

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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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, 2023.

Changes in Material Accounting Policies

The condensed consolidated interim financial statements have been prepared utilizing the same material accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2023.

Management has determined that the previously disclosed international segment no longer meets the definition of a reportable segment. The international segment was formerly comprised of PHX Energy's Russia and Albania divisions. The Russian division was disposed of on June 30, 2022. As a result of the internal realignment, the results of the Albania division are no longer regularly reviewed by the Corporation's chief operating decision makers. The results of the Albania division also do not exceed the quantitative thresholds in IFRS 8, Operating Segments. Accordingly, the results of the international segment are no longer presented separately and are included within the Canada segment. The comparative segment disclosures have been restated to align with the reportable segment presentation adopted in the current period.

Business Risk Factors

The business risk factors applicable to the Corporation have not materially changed since December 31, 2023. Refer to the "Business Risk Factors" section of the MD&A in PHX Energy's 2023 Annual Report as well as in the Corporation's most recent Annual Information Form under the heading "*Risk Factors*", which is available under the Corporation's profile at www.sedarplus.ca.

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.sedarplus.ca.

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 IFRS, 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, 2024 to March 31, 2024 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 May 7, 2024**
Total common shares outstanding	47,491,304
Dilutive securities:	
Options	1,041,667
Corporation shares – diluted	48,532,971

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Mar-24	Dec-23	Sep-23	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22
Revenue	**166,123**	165,332	169,368	155,618	166,022	157,758	142,418	126,238
Earnings	**17,454**	33,134	24,921	18,108	22,417	20,333	13,475	168
Earnings per share – basic	**0.37**	0.69	0.50	0.35	0.44	0.40	0.27	-
Earnings per share – diluted	**0.37**	0.68	0.50	0.35	0.42	0.39	0.27	-
Dividends paid	**9,453**	7,277	7,621	7,656	7,636	5,078	3,797	3,791
Cash and cash equivalents	**13,380**	16,433	14,845	20,080	15,502	18,247	27,024	17,971
Loans and borrowings	**7,547**	7,564	18,302	27,685	29,847	22,731	24,000	20,108

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) <u>Adjusted EBITDA</u>

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 March 31,	
	2024	2023
Earnings:	**17,454**	22,417
Add:		
Depreciation and amortization drilling and other equipment	**10,319**	9,317
Depreciation and amortization right-of-use asset	**849**	407
Provision for income taxes	**5,288**	3,541
Finance expense	**334**	667
Finance expense lease liability	**541**	576
Equity-settled share-based payments	**100**	101
Unrealized foreign exchange loss (gain)	**148**	(26)
Adjusted EBITDA	**35,033**	37,000

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

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 at the period end.

c) <u>Adjusted EBITDA as a Percentage of Revenue</u>

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 Condensed Consolidated Interim Statements of Comprehensive Earnings.

d) <u>Adjusted EBITDA Excluding Cash-settled Share-based Compensation Expense</u>

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 March 31,	
	2024	2023
Earnings:	**17,454**	22,417
Add:		
Depreciation and amortization drilling and other equipment	**10,319**	9,317
Depreciation and amortization right-of-use asset	**849**	407
Provision for income taxes	**5,288**	3,541
Finance expense	**334**	667
Finance expense lease liability	**541**	576
Equity-settled share-based payments	**100**	101
Unrealized foreign exchange loss (gain)	**148**	(26)
Cash-settled share-based compensation expense	**5,710**	1,374
Adjusted EBITDA excluding cash-settled share-based compensation expense	**40,743**	38,374

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 Condensed Consolidated Interim 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 March 31,	
	2024	2023
Revenue	**166,123**	166,022
Direct costs	**129,044**	131,988
Gross profit	**37,079**	34,034
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,319**	9,317
Depreciation & amortization right-of-use asset (included in direct costs)	**849**	407
	48,247	43,758
Gross profit as a percentage of revenue excluding depreciation & amortization	**29%**	26%

g) <u>SG&A Costs Excluding Share-Based Compensation as a Percentage of Revenue</u>

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 March 31,	
	2024	2023
SG&A Costs	**21,017**	15,556
Deduct:		
Share-based compensation (included in SG&A)	**5,810**	1,475
	15,207	14,081
Revenue	**166,123**	166,022
SG&A costs excluding share-based compensation as a percentage of revenue	**9%**	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 March 31,	
	2024	2023
Cash flows from operating activities	**11,167**	3,905
Add (deduct):		
Changes in non-cash working capital	**14,585**	22,185
Interest paid	**204**	513
Income taxes paid	**185**	134
Funds from operations	**26,141**	26,737

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 March 31,	
	2024	2023
Cash flows from operating activities	**11,167**	3,905
Add (deduct):		
Changes in non-cash working capital	**14,585**	22,185
Interest paid	**204**	513
Income taxes paid	**185**	134
Cash payment on leases	**(1,371)**	(1,339)
	24,770	25,398
Proceeds on disposition of drilling equipment	**12,301**	12,417
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**(5,416)**	(8,628)
Net proceeds	**6,885**	3,789
Growth capital expenditures	**(24,224)**	(9,955)
Excess cash flow	**7,431**	19,232

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)

	March 31, 2024	December 31, 2023
Current assets	**208,653**	207,040
Deduct:		
Current liabilities	**(119,974)**	(113,125)
Working capital	**88,679**	93,915

d) Net Debt (Net Cash)

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

(Stated in thousands of dollars)

	March 31, 2024	December 31, 2023
Loans and borrowings	**7,547**	7,564
Deduct:		
Cash and cash equivalents	**(13,380)**	(16,433)
Net debt (Net cash)	**(5,833)**	(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 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 March 31,	
	2024	2023
Growth capital expenditures	**24,224**	9,955
Maintenance capital expenditures from asset retirements	**4,141**	4,857
Maintenance capital expenditures from downhole equipment losses	**1,275**	3,771
	29,640	18,583
Deduct:		
Proceeds on disposition of drilling equipment	**(12,301)**	(12,417)
Net capital expenditures	**17,339**	6,166

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 March 31,	
	2024	2023
Excess cash flow	**7,431**	19,232
70% of excess cash flow	**5,202**	13,462
Deduct:		
Dividends paid to shareholders	**(9,453)**	(7,636)
Repurchase of shares under the NCIB	**-**	-
Remaining Distributable Balance under ROCS	**(4,251)**	5,826

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 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 future cash flow will compensate for the negative balance of the remaining distributable balance under ROCS in the quarter and that the remaining distributable balance under ROCS will be positive in the later half of the year.
- 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 equipment on order as at March 31, 2024 will be delivered within the year.
- The anticipated 2024 capital expenditure budget of $75 million, which includes $5 million from the 2023 capital expenditure budget that was carried forward. Of the total expenditures, $47 million is expected to be allocated to

growth capital and the remaining $28 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 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 above are stated under the headings: "Financial Results", "Dividends and ROCS", "Capital Spending", "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 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 potential impact of 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 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

(Stated in thousands of dollars, unaudited)

	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 13,380**	$ 16,433
Trade and other receivables	**125,711**	121,334
Inventories	**63,003**	63,173
Prepaid expenses	**4,598**	2,409
Current tax assets	**1,961**	3,691
Total current assets	**208,653**	207,040
Non-current assets:		
Drilling and other long-term assets (Note 6)	**146,789**	128,263
Right-of-use assets	**26,764**	27,056
Intangible assets	**13,771**	14,200
Investments	**3,001**	3,001
Other long-term assets	**1,429**	1,284
Deferred tax assets	**2,993**	4,650
Total non-current assets	**194,747**	178,454
Total assets	**$ 403,400**	$ 385,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	**$ 107,100**	$ 100,438
Dividends payable (Note 8d)	**9,498**	9,453
Lease liability	**3,376**	3,234
Total current liabilities	**119,974**	113,125
Non-current liabilities:		
Lease liability	**33,622**	33,972
Loans and borrowings (Note 7)	**7,547**	7,564
Deferred tax liability	**18,831**	16,822
Other (Note 8c)	**1,116**	4,042
Total non-current liabilities	**61,116**	62,400
Equity:		
Share capital (Note 8a)	**223,628**	222,653
Contributed surplus	**7,005**	7,168
Deficit	**(37,739)**	(45,695)
Accumulated other comprehensive income	**29,416**	25,843
Total equity	**222,310**	209,969
Total liabilities and equity	**$ 403,400**	$ 385,494

See accompanying notes to unaudited condensed consolidated interim financial statements, commitments (Note 6b)

Condensed Consolidated Interim Statements of Comprehensive Earnings

(Stated in thousands of dollars except earnings per share, unaudited)

	Three-month periods ended March 31,	
	2024	2023
Revenue (Note 4)	**$ 166,123**	$ 166,022
Direct costs	**129,044**	131,988
Gross profit	**37,079**	34,034
Expenses:		
Selling, general and administrative expenses	**21,017**	15,556
Research and development expenses	**1,202**	1,256
Finance expense	**334**	667
Finance expense lease liability	**541**	576
Other income (Note 9)	**(8,757)**	(9,979)
	14,337	8,076
Earnings before income taxes	**22,742**	25,958
Provision for income taxes		
Current	**1,986**	2,724
Deferred	**3,302**	817
	5,288	3,541
Net earnings	**17,454**	22,417
Other comprehensive income		
Foreign currency translation, net of tax	**3,573**	(107)
Total comprehensive earnings	**$ 21,027**	$ 22,310
Earnings per share – basic	**$ 0.37**	$ 0.44
Earnings per share – diluted	**$ 0.37**	$ 0.42

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

(Stated in thousands of dollars except share capital numbers, unaudited)

Three-month period ended March 31, 2024	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2023	**47,260,472**	**$ 222,653**	**$ 7,168**	**$ 25,843**	**$ (45,695)**	**$ 209,969**
Issuance of share capital on exercise of options	**227,533**	**712**	**-**	**-**	**-**	**712**
Share-based payments	**-**	**-**	**100**	**-**	**-**	**100**
Fair value of options exercised	**-**	**263**	**(263)**	**-**	**-**	**-**
Net earnings	**-**	**-**	**-**	**-**	**17,454**	**17,454**
Foreign currency translation, net of tax	**-**	**-**	**-**	**3,573**	**-**	**3,573**
Dividends	**-**	**-**	**-**	**-**	**(9,498)**	**(9,498)**
Balance, March 31, 2024	**47,488,005**	**$ 223,628**	**$ 7,005**	**$ 29,416**	**$ (37,739)**	**$ 222,310**

Three-month period ended March 31, 2023	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2022	50,896,175	$ 251,345	$ 7,044	$ 30,610	$ (112,120)	$ 176,879
Issuance of share capital on exercise of options	131,500	266	-	-	-	266
Issuance of share capital from trust on settlement of retention awards	68,169	534	-	-	-	534
Common shares purchased and held in trust	(114,000)	(808)	-	-	-	(808)
Share-based payments	-	-	101	-	-	101
Fair value of options exercised	-	109	(109)	-	-	-
Net earnings	-	-	-	-	22,417	22,417
Foreign currency translation, net of tax	-	-	-	(107)	-	(107)
Dividends	-	-	-	-	(7,615)	(7,615)
Balance, March 31, 2023	50,981,844	$ 251,446	$ 7,036	$ 30,503	$ (97,318)	$ 191,667

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

(Stated in thousands of dollars, unaudited)

	Three-month periods ended March 31, 2024	2023
Cash flows from operating activities:		
Earnings	**$ 17,454**	$ 22,417
Adjustments for:		
Depreciation and amortization	**10,319**	9,317
Depreciation and amortization right-of-use asset	**849**	407
Provision for income taxes	**5,288**	3,541
Unrealized foreign exchange (gain) loss	**148**	(26)
Net gain on disposition of drilling equipment (Note 9)	**(8,886)**	(9,956)
Equity-settled share-based payments	**100**	101
Finance expense	**334**	667
Finance expense lease liability	**541**	576
Provision for inventory obsolescence	**535**	269
Interest paid on lease liability	**(541)**	(576)
Interest paid	**(204)**	(513)
Income taxes paid	**(185)**	(134)
Change in non-cash working capital	**(14,585)**	(22,185)
Net cash from operating activities	**11,167**	3,905
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	**12,301**	12,417
Acquisition of drilling and other equipment	**(29,640)**	(18,583)
Change in non-cash working capital	**12,469**	1,142
Net cash used in investing activities	**(4,870)**	(5,024)
Cash flows from financing activities:		
Dividends paid to shareholders	**(9,453)**	(7,636)
Payments of lease liability	**(830)**	(762)
Net proceeds from (net repayment of) loans and borrowings	**(60)**	7,326
Proceeds from exercise of options	**712**	266
Purchase of shares held in trust	**-**	(808)
Net cash used in financing activities	**(9,631)**	(1,614)
Net decrease in cash and cash equivalents	**(3,334)**	(2,733)
Cash and cash equivalents, beginning of period	**16,433**	18,247
Effect of movements in exchange rates on cash held	**281**	(12)
Cash and cash equivalents, end of period	**$ 13,380**	$ 15,502

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2024 and 2023

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, rents performance drilling motors, and sells motor equipment and parts 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, 2023.

These condensed consolidated interim financial statements were authorized by the Board of Directors on May 7, 2024.

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.

c) Functional and Presentation Currency

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

d) Use of Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and judgements 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 estimates and 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, 2023.

3. Material Accounting Policies

These condensed consolidated interim financial statements have been prepared utilizing the same material accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2023.

Management has determined that the previously disclosed international segment no longer meets the definition of a reportable segment. The international segment was formerly comprised of PHX Energy's Russia and Albania divisions. The Russian division was disposed of on June 30, 2022. As a result of the internal realignment, the results of the Albania division are no longer regularly reviewed by the Corporation's chief operating decision makers. The results of the Albania division also do not exceed the quantitative thresholds in IFRS 8, Operating Segments. Accordingly, the results of the international segment are no longer presented separately and are included within the Canada segment. The comparative segment disclosures have been restated to align with the reportable segment presentation adopted in the current period.

4. Revenue

The Corporation generates revenue primarily from the provision of 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		Total	
Three-month periods ended March 31,	**2024**	2023	**2024**	2023	**2024**	2023
Directional drilling services	**51,652**	39,727	**103,406**	114,746	**155,058**	154,473
Motor rental	**321**	629	**7,925**	10,231	**8,246**	10,860
Sale of motor equipment and parts	**-**	-	**2,819**	689	**2,819**	689
Total revenue	**51,973**	40,356	**114,150**	125,666	**166,123**	166,022

5. Operating Segments

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

Information about reportable segments

(Stated in thousands of dollars)	Canada		United States		Total	
Three-month periods ended March 31,	**2024**	2023	**2024**	2023	**2024**	2023
Total revenue	**51,973**	40,356	**114,150**	125,666	**166,123**	166,022
Reportable segment profit before income taxes	**8,674**	8,293	**16,594**	15,923	**25,268**	24,216

(Stated in thousands of dollars)	Canada(ii)		United States(i)		Total	
As at March 31,	**2024**	2023	**2024**	2023	**2024**	2023
Segment non-current assets	**69,318**	62,492	**125,429**	109,675	**194,747**	172,167
Total Assets	**146,315**	133,379	**257,085**	252,235	**403,400**	385,614

(i)March 31, 2024 includes USD $0.9 million of assets physically located in the Middle East region (2023 – USD $1.6 million).
(ii)March 31, 2024 includes CAD $1.5 million of assets physically located in Albania (2023 – CAD $0.9 million).

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)	Three-month periods ended March 31,	
	2024	2023
Reportable segment profit before income taxes	**25,268**	24,216
Corporate:		
Selling, general and administrative expenses	**9,206**	5,738
Research and development expenses	**1,202**	1,256
Finance expense	**334**	667
Finance expense lease liability	**541**	576
Other income	**(8,757)**	(9,979)
Earnings before income taxes	**22,742**	25,958

6. Drilling and Other Long-Term Assets

a) Acquisitions and Disposals

During the three-month period ended March 31, 2024, the Corporation acquired assets with a cost of $29.6 million (2023 - $18.6 million).

Assets with a carrying amount of $3.4 million (2023 - $2.5 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $8.9 million (2023 - $10 million), which is included in other income (see Note 9) in the condensed consolidated interim statement of comprehensive income.

b) Capital Commitments

As at March 31, 2024, the Corporation has entered into commitments to purchase drilling and other equipment for $21.8 million; delivery is expected to occur within the 2024-year.

7. Loans and Borrowings

a) Terms and Covenants

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at March 31, 2024**	Currency	Carrying Amount at December 31, 2023
Operating Facility	CAD	15,000	December 12, 2026	CAD	**2,940**	CAD	-
Syndicated Facility	CAD	80,000	December 12, 2026	CAD	**4,607**	CAD	7,564
Total CAD Facility	CAD	**95,000**		CAD	**7,547**	CAD	7,564
US Operating Facility	USD	20,000	December 12, 2026	USD	**-**	USD	-
Total USD Facility	USD	**20,000**		USD	**-**	USD	-

The carrying amount of loans and borrowings is presented net of borrowing costs amounting to $0.4 million at March 31, 2024. Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at March 31, 2024 the Corporation was in compliance with all of its financial covenants as follows:

Ratio	Covenant	**March 31, 2024**
Debt to covenant EBITDA	< 3.0x	**0.06**
Interest coverage ratio	> 3.0x	**68.69**

(i)Definitions for these terms are included in the credit agreement filed on SEDAR

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.

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 one percent. Interest on the syndicated facility is at the Canadian Overnight Repo Rate Average ("CORRA") plus two percent.

As at March 31, 2024 the Corporation has CAD $87 million and USD $20 million available to be drawn from its credit facilities with a borrowing base limited to $182 million. The credit facilities are secured by substantially all of the Corporation's assets.

8. Share Capital

a) Authorized and Issued Shares

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

(Stated in thousands of dollars except common shares outstanding)	Number		Amount
Balance as at January 1, 2023	50,896,175	$	251,345
Common shares repurchased and cancelled	(4,032,600)		(30,366)
Common shares repurchased and held in trust	(114,000)		(612)
Issued shares pursuant to retention awards plan	121,763		955
Issued shares pursuant to share option plan	389,134		1,331
Balance as at December 31, 2023	47,260,472	$	222,653
Issued shares pursuant to share option plan	**227,533**		**975**
Balance as at March 31, 2024	**47,488,005**	**$**	**223,628**

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 2024

Number		Exercise Price	Expiration Date		Fair Value
150,000	$	9.17	March 7, 2029	$	1.78
125,000		9.23	March 7, 2029		1.64
275,000					

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 2024 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 41 percent, forfeiture rate of nil, dividend yield of 8.66 percent and a risk-free interest rate of 4.13 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-month period ended March 31, 2024 was $0.1 million (2023 - $0.1 million).

A summary of the status of the plan as at March 31, 2024 is presented below:

	March 31, 2024		December 31, 2023	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**994,200**	**$ 4.80**	1,133,334	$ 3.31
Granted	**275,000**	**9.20**	250,000	7.91
Exercised	**(227,533)**	**3.13**	(389,134)	2.48
Outstanding, end of period	**1,041,667**	**6.32**	994,200	4.80
Options exercisable, end of period	**516,662**	**4.31**	744,195	3.95

The weighted-average share price at the date of exercise for share options exercised for the three-month period ended March 31, 2024 was $8.80 (2023 - $7.60).

The range of exercise prices for options outstanding at March 31, 2024 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
100,000	0.93 yrs	2.19	100,000	2.19
100,000	1.93 yrs	2.74	100,000	2.74
100,000	1.93 yrs	2.64	100,000	2.64
150,000	2.93 yrs	6.08	99,999	6.08
66,667	2.93 yrs	6.16	33,333	6.16
150,000	3.94 yrs	7.96	49,998	7.96
100,000	3.94 yrs	7.83	33,332	7.83
150,000	4.94 yrs	9.17	-	9.17
125,000	4.94 yrs	9.23	-	9.23
1,041,667	3.32 yrs	$ 6.32	516,662	$ 4.31

c) Retention Award Plan (Cash-Settled)

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 three-month period ended March 31, 2024, the independent trustee did not purchase common shares (2023 – 114,000) for a total cost of nil (2023 - $0.8 million) and released no common shares (2023 – 68,169) to settle retention award obligations (2023 - $0.5 million). As at March 31, 2024, the Corporation held 3,301 common shares in trust (2023 – 56,895). 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 three-month period ended March 31, 2024, 236,112 PAs were granted (2023 – 268,825), 1,051,655 PAs settled at a weighted-average payout multiplier of 155 percent (2023 – 1,159,523), no PAs were forfeited (2023 - nil). As at March 31, 2024, 577,012 PAs were outstanding (2023 – 808,217).

The Corporation recorded a total of $5.7 million compensation expense relating to these plans for the three-month period ended March 31, 2024 (2023 – $1.4 million). The expense is included in selling, general and administrative expense and has a corresponding liability of $5.1 million in trade and other payables for the current portion and $1.1 million included in other liabilities for the long-term portion which had vesting dates after March 31, 2025 (2023 - $4.7 million and $1.2 million). There were 1,527,685 RAs and PAs outstanding as at March 31, 2024 (2023 – 2,083,553). The closing share price on March 31, 2024 of PHX stock was $9.04.

A summary of the status of the plan as at March 31, 2024 is presented below:

	March 31, 2024	December 31, 2023
RAs and PAs outstanding, beginning of period	**2,160,151**	2,845,191
Granted	**535,270**	744,643
Settled	**(1,167,736)**	(1,429,683)
RAs and PAs outstanding, end of period	**1,527,685**	2,160,151

d) Dividends

On March 15, 2024, the Corporation declared a dividend of $0.20 per share or $9.5 million payable on April 15, 2024.

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 current NCIB, no common shares were purchased by the Corporation and cancelled in the three-month period ended March 31, 2024 (2023 - nil).

9. Other Income

(Stated in thousands of dollars)	Three-month periods ended March 31,	
	2024	2023
Net gain on disposition of drilling equipment	**8,886**	9,956
Foreign exchange (loss) gain	**(129)**	23
Other income	**8,757**	9,979

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.

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

Royal Bank of Canada
HSBC USA N.A.

Transfer Agent

Odyssey Trust Company
Calgary, Alberta