



Press Release
May 9, 2023
TSX – PHX
Calgary, Alberta

PHX Energy Announces Record First Quarter Financial Results

First Quarter Highlights

- In the 2023-quarter, consolidated revenue was \$166 million, the highest level of quarterly revenue on record and an increase of 52 percent from the first quarter of 2022.
- Adjusted EBITDA⁽¹⁾ from continuing operations increased to an all-time quarterly record of \$37 million, which represented 22 percent of consolidated revenue⁽¹⁾, also the highest quarterly record. Included in the 2023-quarter's adjusted EBITDA is \$1.4 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations⁽¹⁾ in the first quarter of 2023 was \$38.4 million, 23 percent of consolidated revenue.
- For the three-month period ended March 31, 2023, PHX Energy's earnings from continuing operations increased to \$22.4 million, the highest level of quarterly earnings in the Corporation's history.
- PHX Energy's US division's revenue of \$125.7 million is virtually the same as the record quarterly revenue generated in the fourth quarter of 2022. Excluding the impact of foreign exchange, the 2023 first quarter was an all-time quarterly record revenue for PHX Energy's US operations. US revenue represented 76 percent of consolidated revenue.
- PHX Energy's Canadian division reported its highest level of quarterly revenue since the fourth quarter of 2014.
- The US dollar remained strong and continued to have a favorable impact on the 2023-quarter's financial results. In the 2023 three-month period, the average US dollar to Canadian dollar foreign exchange rate was 1.35 compared to 1.27 in the 2022-period.
- The Corporation generated excess cash flow ⁽²⁾ of \$19.2 million in the 2023 three-month period.
- In the 2023-quarter, PHX Energy paid \$7.6 million in dividends which is triple the dividend amount paid in the same 2022-quarter. On March 15, 2023, the Corporation declared a dividend of \$0.15 per share or \$7.7 million, paid on April 17, 2023 to shareholders of record on March 31, 2023.
- The Corporation continues to maintain a strong financial position with working capital⁽²⁾ of \$105.7 million and net debt⁽²⁾ of \$14.3 million with credit facility capacity in excess of \$50 million as at March 31, 2023.

⁽¹⁾ Non-GAAP financial measure or ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this document.

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Financial Highlights

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

	Three-months ended March 31,		
	2023	2022	% Change
Operating Results – Continuing Operations			
Revenue	166,022	109,304	52
Earnings	22,417	(2,315)	n.m.
Earnings per share – diluted	0.42	(0.05)	n.m.
Adjusted EBITDA ⁽¹⁾	37,000	6,444	474
Adjusted EBITDA per share – diluted ⁽¹⁾	0.69	0.13	431
Adjusted EBITDA as a percentage of revenue ⁽¹⁾	22%	6%	
Cash Flow – Continuing Operations			
Cash flows from (used in) operating activities	3,905	(3,423)	n.m.
Funds from operations ⁽²⁾	26,737	2,882	n.m.
Funds from operations per share – diluted ⁽³⁾	0.50	0.06	n.m.
Dividends paid per share ⁽³⁾	0.15	0.05	200
Dividends paid	7,636	2,482	208
Capital expenditures	18,583	18,206	2
Excess cash flow ⁽²⁾	19,232	(11,394)	n.m.
Financial Position, March 31,			
Working capital ⁽²⁾	105,717	94,339	12
Net debt ⁽²⁾	14,345	4,484	220
Shareholders' equity	191,667	176,878	8
Common shares outstanding	50,981,844	50,896,175	n.m.

n.m. – not meaningful

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Outlook

In the first quarter of 2023, we have continued to produce record quarterly financial results in revenue, adjusted EBITDA and net earnings. Although currently there is some uncertainty in the market, we remain cautiously optimistic that our operational strength will continue to produce strong financial results.

- As anticipated the North American rig count in the first quarter was relatively flat compared to the fourth quarter. With the recent weakening of commodity prices, the US rig count is currently down 3 percent from the start of this year and in Canada, due to the typical slower spring break up period, the rig count has decreased 44 percent.
- With this weakening we have experienced a similar reduction in activity in the US, and expect these slightly lower than forecasted activity levels to persist for a few months as the rig count stabilizes. This has been partially offset by the demand for our premium technology remaining strong and in particular our RSS offering which generates higher day rates. Despite these industry pressures thus far in 2023, activity levels are strong for our US operations on a historical basis and we foresee maintaining our market share.
- In Canada, the strong activity from the first quarter is continuing with a more active spring break up period for our operations, partially due to our client mix and their drilling areas being less impacted by the spring thaw.
- We believe that activity levels will rebound in the latter part of the year, and our capital expenditures will provide the required capacity to keep pace with this. Despite the slowdown, our Atlas motors remain in high demand and with new opportunities to market these motors, they make up a large portion of the capital expenditures budget.
- We have recently entered into an Atlas sales agreement with a client and are actively trying to expand this portion of our business and customer base. We believe that creating an Atlas sales division will allow us to further penetrate the North American market, and possibly other international markets. This business line is complementary to our full service directional offering and opens a portion of the market that may not be accessible on a full-service basis. We anticipate the additional revenue and associated margins will bolster our already strong financial position.
- We are committed to providing shareholder's attractive total return, and believe we have sustainable dividend program which we intend to supplement through our Return to Capital Strategy ("ROCS") which will potentially allow us to return up to 70 percent of excess cash flow to shareholders. We will remain disciplined with our cost and capital management to ensure we preserve our balance sheet strength and remain positioned as a leader within the energy services sector.

We remain cautiously optimistic for the remainder of the 2023 year, and with our exceptional team of people we will execute on our strategic and operational objectives to continue to outperform in our sector. Even with the softening industry environment, our industry leading technology and superior customer services provide us with competitive advantages we can continue to leverage.

Michael Buker, President

May 9, 2023

Financial Results

In the first quarter of 2023, PHX Energy achieved all-time record levels of quarterly consolidated revenue, adjusted EBITDA⁽¹⁾, and earnings from continuing operations.

North American drilling activity in the 2023-period held steady from the strong industry levels seen in the last quarter of 2022. These favourable market conditions coupled with the Corporation's superior marketing and operational performance resulted in PHX Energy generating its highest quarterly consolidated revenue in its history. For the three-month period ended March 31, 2023, consolidated revenue was \$166 million, an increase of 52 percent as compared to \$109.3 million in the 2022-quarter. Consolidated activity levels grew by 17 percent to 7,955 operating days from 6,796 operating days in the corresponding 2022-quarter. PHX Energy's average consolidated revenue per day⁽³⁾ for directional drilling services improved by 26 percent quarter-over-quarter. Throughout 2022 and into 2023, the Corporation was able to implement pricing increases as a result of favourable industry conditions, ongoing strong demand for its premium technologies, and efforts to offset inflationary costs.

In the 2023 three-month period, PHX Energy's US division revenue grew by 54 percent to \$125.7 million as compared to \$81.8 million in the same 2022-period, and was the same level as the fourth quarter of 2022 due to industry activity being flat. US operating days increased by 19 percent from 4,046 in the first quarter of 2022 to 4,820 in the first quarter of 2023 while US average revenue per day⁽³⁾ for directional drilling services improved by 26 percent quarter-over-quarter. Revenue from the Corporation's US segment represented 76 percent of consolidated revenue in the 2023 three-month period (2022 – 75 percent).

In the first quarter of 2023, the Corporation's Canadian division saw its highest quarterly revenue since the fourth quarter of 2014. PHX Energy's Canadian segment generated revenue of \$39.2 million, a 45 percent increase from \$27.1 million in the same 2022-quarter. The Canadian industry was more active compared to the first quarter of 2022 and as a result, the Corporation's Canadian operating days also improved by 12 percent to 3,051 days in the 2023-quarter from the 2,730 operating days realized in the comparable 2022-period. Average revenue per day realized by the Canadian segment also improved by 27 percent quarter-over-quarter.

PHX Energy continued to reach record levels of adjusted EBITDA and earnings from continuing operations as a result of its strong activity and operational performance coupled with diligent supply chain and cost management strategies to mitigate the negative impacts of component shortages and inflationary pressures. In the first quarter of 2023, adjusted EBITDA from continuing operations⁽¹⁾ increased to \$37 million (22 percent of revenue) which is six times the adjusted EBITDA reported in the same 2022-quarter of \$6.4 million (6 percent of revenue). Earnings from continuing operations increased to \$22.4 million from a loss of \$2.3 million in the comparable 2022-period. Included in the 2023 three-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of \$1.4 million (2022 - \$11.7 million). Excluding

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cash-settled share-based compensation expense, adjusted EBITDA from continuing operations⁽¹⁾ for the three-month period ended March 31, 2023 is \$38.4 million (2022 - \$18.2 million).

As at March 31, 2023, the Corporation had working capital⁽²⁾ of \$105.7 million and net debt⁽²⁾ of \$14.3 million with available credit facilities in excess of \$50 million.

Dividends and ROCS

On March 15, 2023, the Corporation declared a dividend of \$0.15 per share to the shareholders of record on March 31, 2023. An aggregate of \$7.6 million was paid on April 7, 2023. This is double the dividend declared in the 2022-quarter.

The Corporation remains committed to enhancing shareholder returns through multiple tools, including its dividend program, its Return on Capital Strategy (“ROCS”), and the Normal Course Issuer Bid.

Capital Spending

In the first quarter of 2023, the Corporation spent \$18.6 million in capital expenditures, of which \$10 million was spent on growing the Corporation’s fleet of drilling equipment, \$4.8 million was spent to replace retired assets, and \$3.8 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of \$12.4 million, the Corporation’s net capital expenditures⁽²⁾ for the 2023-quarter were \$6.2 million. Capital expenditures in the 2023-quarter were primarily directed towards Atlas High Performance motors (“Atlas”), Velocity Real-Time systems (“Velocity”), and PowerDrive Orbit Rotary Steerable Systems (“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,
	2023
Growth capital expenditures	9,955
Maintenance capital expenditures from asset retirements	4,857
Maintenance capital expenditures from downhole equipment losses	3,771
	18,583
Deduct:	
Proceeds on disposition of drilling equipment	(12,417)
Net capital expenditures⁽²⁾	6,166

The approved capital expenditure budget for the 2023-year, excluding proceeds on disposition of drilling equipment, is \$61.5 million, which includes \$11.5 million of carryover from the 2022 budget. Of the total expenditures, \$41.8 million is expected to be allocated to growth capital and the remaining \$19.7 million is expected to be allocated towards maintenance of the existing

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fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations. The maintenance capital amount could increase throughout the year should there be more downhole equipment losses than forecasted. These increases would likely be funded by proceeds on disposition of drilling equipment.

As at March 31, 2023, the Corporation has capital commitments to purchase drilling and other equipment for \$32.5 million, \$16.7 million of which is growth capital and includes \$15.7 million for performance drilling motors and \$1 million for other equipment. Equipment on order as at March 31, 2023 is expected to be delivered within 2023.

The Corporation currently possesses approximately 720 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8" and 9" Atlas motors, 112 Velocity systems, and 51 PowerDrive Orbit RSS, the largest independent fleet in North America.

Sale and Licensed Use of Atlas Motors

On May 3, 2023, PHX Energy entered into a sales agreement for the sale and licensed use of its Atlas High Performance Drilling Motors. PHX Energy will be providing a fleet of Atlas motors to a purchaser in the US market (referred to as the "Purchaser"). Under the agreement, the Purchaser must exclusively use components manufactured by the Corporation for the maintenance of their fleet of Atlas motors. PHX Energy anticipates delivering a fleet of Atlas motors amounting to \$3.8 million to the Purchaser by the third quarter of 2023 and anticipates ongoing orders for parts to maintain their fleet throughout the remainder of the year. In addition, the Purchaser could potentially place subsequent orders for additional Atlas motors in the latter part of the year.

Supply Chain Disruptions and Inflation

Although supply chain challenges had less of an impact in the first quarter 2023, inflation and shortages related to the products and services required within the energy sector were ongoing, including those within the Corporation's supply chain. As a result of these shortages, lead times remain extended and turn-around times for servicing the Corporation's premium technologies remain longer than usual, resulting in limited equipment utilization and constrained activity growth. Inflationary pressures also carried through 2023 and the resulting overall cost increases continued to negatively impact the Corporation's margins.

PHX Energy has remained diligent and proactive with efforts to lessen the supply chain disruptions' impact on its operations. Specifically, the Corporation continues to maintain higher minimum safety stock levels and take advantage of pre-ordering materials to manufacture technology and obtain bulk discounts, and as a result, high inventory levels remained and have increased by 5 percent from \$63.1 million at the end of 2022 to \$66.1 million at March 31, 2023. In addition, the Corporation also continues to pursue pricing increases where it deems necessary to mitigate the impact of inflationary costs and to protect its margins.

Additional information regarding certain material risks and uncertainties, and their impact on the Corporation's business can be found throughout this document, including under the headings "Capital Spending", "Operating Costs and Expenses", "Segmented Information" and "Outlook".

Shares Held in Trust

For the three-month period ended March 31, 2023, the Corporation equity settled a portion of its outstanding Retention Awards (“RA”) granted under its Retention Award Plan (the “RAP”). Pursuant to RA settlements, 68,169 common shares were released from the independent trustee in 2023 to settle \$0.5 million in RAP liabilities. The independent trustee acquires common shares on the open market from time-to-time for the potential settlement of future share-based compensation obligations of the Corporation. For the three-month period ended March 31, 2023, the trustee purchased 114,000 common shares for a total cost of \$0.8 million. As at March 31, 2023, 56,895 common shares were held in trust for purposes of the RAP.

Normal Course Issuer Bid

For the three-month period ended March 31, 2023, the Corporation did not repurchase shares through its current NCIB. The Corporation did not repurchase shares through its previous NCIB in the 2022-period.

Non-GAAP and Other Financial Measures

Throughout this document, PHX Energy uses certain measures to analyze financial performance, financial position, and cash flow. These Non-GAAP and other specified financial measures do not have standardized meanings prescribed under Canadian generally accepted accounting principles (“GAAP”) and include Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures (collectively referred to as “Non-GAAP and Other Financial Measures”). These non-GAAP and other specified financial measures include, but are not limited to, adjusted EBITDA, adjusted EBITDA per share, adjusted EBITDA 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, and working capital. 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 document for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

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. Recently, the revenue generated from the rental and sale of motors has grown and this is expected to continue in future periods.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Directional drilling services	156,092	103,391	51
Motor rental	9,241	5,913	56
Sale of motor equipment and parts	689	-	n.m.
Total revenue	166,022	109,304	52

n.m. – not meaningful

For the second consecutive quarter, the Corporation generated its highest level of quarterly revenue on record, surpassing the previous records set in the fourth quarter of 2022. In the first quarter of 2023, PHX Energy's consolidated revenue was \$166 million, a 52 percent increase compared to the \$109.3 million in the first quarter of 2022 and a 5 percent increase compared to the \$157.8 million in the fourth quarter of 2022.

The continued strong demand for PHX Energy's premium technologies and the cumulative impact of previous and recent pricing increases implemented to mitigate the effects of inflationary costs greatly contributed to the increase in consolidated revenue quarter-over-quarter and the record quarterly consolidated revenue achieved in 2023. For the three-month period ended March 31, 2023, average consolidated revenue per day⁽³⁾ for directional drilling services was \$19,623, an increase of 26 percent as compared to \$15,549 in the first quarter of 2022. This increase was also supported by the favorable impact of the strong US dollar in the 2023-period. PHX Energy's revenue from motor rentals grew by 56 percent to \$9.2 million in the 2023-quarter from \$5.9 million in the same 2022-quarter. Higher motor rental revenue in the 2023-quarter was mainly driven by increased capacity in the Corporation's motor fleet and a greater focus on marketing Atlas technology as a stand-alone product line.

Industry activity levels in both Canada and the US improved in the first quarter of 2023 compared to the same quarter in 2022. During the first quarter of 2023, the US industry rig count averaged 760 rigs operating per day, which is 20 percent greater than the average of 633 rigs in the first quarter of 2022 however is slightly below the average of 776 rigs in the fourth quarter of 2022. In Canada, the average rig count for the 2023 three-month period increased 12 percent to 221 rigs from 198 rigs in the first quarter of 2022 and increased 15 percent from the 193 rigs in the fourth quarter of 2022 (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, <https://rigcount.bakerhughes.com/na-rig-count>).

In comparison, the Corporation's consolidated operating days grew 17 percent to 7,955 days in the first quarter of 2023 from 6,796 days in the first quarter of 2022. Despite flat US industry growth, operating days in the 2023 three-month period increased 6 percent from 7,509 days generated in the fourth quarter of 2022. Activity growth in the 2023-quarter relative to the last quarter of 2022 was mainly driven by strong drilling activity in Canada.

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Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2023	2022	% Change
Direct costs	131,988	91,917	44
Depreciation & amortization drilling and other equipment (included in direct costs)	9,317	7,277	28
Depreciation & amortization right-of-use asset (included in direct costs)	407	836	(51)
Gross profit as a percentage of revenue excluding depreciation & amortization ⁽¹⁾	26%	23%	

Direct costs are comprised of field and shop expenses and include depreciation and amortization on the Corporation's equipment and right-of-use assets. For the three-month period ended March 31, 2023, direct costs increased by 44 percent. Higher direct costs in the 2023-quarter were mainly driven by activity growth, greater depreciation and amortization expenses on drilling and other equipment, and increased overall costs related to personnel, repair parts, and equipment rentals as a result of inflation and robust activity levels. The Corporation's depreciation and amortization on drilling and other equipment for the three-month period ended March 31, 2023, increased by 28 percent, with a significant number of fixed assets received throughout 2022 and into the first quarter of 2023 as part of PHX Energy's capital expenditure program.

In the 2023 three-month period, gross profit as a percentage of revenue excluding depreciation and amortization improved to 26 percent compared to 23 percent in the corresponding 2022-period. The improvement in profitability was largely driven by higher average consolidated revenue per day and the greater volume of activity achieved in the period. In addition, the cumulative effect of the various strategies implemented by PHX Energy over the past year to soften the impact of rising costs aided its profitability. These strategies include, but are not limited to, taking advantage of volume discounts and continuous efforts to achieve cost efficiencies across all major aspects in the Corporation's operations.

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(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2023	2022	% Change
Selling, general and administrative ("SG&A") costs	15,556	22,113	(30)
Cash-settled share-based compensation (included in SG&A costs)	1,374	11,737	(88)
Equity-settled share-based compensation (included in SG&A costs)	101	335	(70)
SG&A costs excluding share-based compensation as a percentage of revenue ⁽¹⁾	8%	9%	

For the three-month period ended March 31, 2023, SG&A costs were \$15.6 million, a decrease of 30 percent as compared to \$22.1 million in the corresponding 2022-period. Lower SG&A costs in the 2023-quarter primarily resulted from the substantial decline in compensation expenses related to cash-settled share-based awards in the current period.

Cash-settled share-based compensation relates to the Corporation's retention awards and are measured at fair value. For the three-month period ended March 31, 2023, the related compensation expense recognized by PHX Energy was \$1.4 million (2022 - \$11.7 million). Changes in cash-settled share-based compensation expense in the 2023-period were mainly driven by decreases in the Corporation's share price, lower number of awards granted in the period, and a decrease in the estimated payout multiplier for performance awards. There were 2,083,553 retention awards outstanding as at March 31, 2023 (2022 – 3,505,340). Excluding share-based compensation, SG&A costs as a percentage of revenue for the 2023 three-month period improved to 8 percent as compared to 9 percent, in the corresponding 2022 period.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Research and development expense	1,256	757	66

For the three-month period ended March 31, 2023, PHX Energy's research and development ("R&D") expenditures increased by 66 percent to \$1.3 million from \$0.8 million in the corresponding 2022-period. Higher R&D expenditures in the 2023 three-month period were mainly due to increases in personnel-related costs and greater prototype expenses that were incurred to support PHX Energy's ongoing initiatives to improve the reliability of equipment, reduce costs to operations, and develop new technologies.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Finance expense	667	112	496
Finance expense lease liabilities	576	507	14

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period ended March 31, 2023, finance expenses increased to \$0.7 million from \$0.1 million in the same 2022-period primarily due to higher

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drawings on the credit facilities that were used to fund PHX Energy's capital spending. Rising variable interest rates on the Corporation's operating and syndicated facilities also contributed to the increase in finance expense in the 2023-period.

Finance expense lease liabilities relate to interest expenses incurred on lease liabilities. For the three-month period ended March 31, 2023, finance expense lease liabilities were consistent quarter-over-quarter at \$0.6 million (2022 - \$0.5 million).

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Net gain on disposition of drilling equipment	9,956	3,581
Foreign exchange gains (losses)	24	(13)
Other income	9,980	3,569

For the three-month periods ended March 31, 2023 and 2022, the Corporation recognized other income of \$10 million and \$3.6 million, respectively. In both periods, other income was mainly comprised of net gain on disposition of drilling equipment.

Net gain on disposition of drilling equipment is comprised of gains on disposition of drilling equipment and proceeds from insurance programs. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life. In the first quarter of 2023, as strong drilling activity levels held steady, more instances of downhole equipment losses occurred as compared to the corresponding 2022-period. In addition, there were more losses of high-valued equipment in the 2023-period which resulted in higher proceeds. 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 in 2023.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,	
	2023	2022
Provision for (Recovery of) income taxes	3,541	(217)
Effective tax rates ⁽³⁾	14%	9%

For the three-month period ended March 31, 2023, the Corporation reported income tax provision of \$3.5 million (2022 - \$0.2 million recovery), of which, \$2.7 million was current and mainly resulted from improved taxable income in the US. PHX Energy's effective tax rate of 14 percent is lower than the combined US federal and state corporate income tax rate of 21 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent, due to the recognition of previously unrecognized deferred tax assets that were applied against taxable income in Canada.

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Segmented Information

The Corporation reports three operating segments on a geographical basis throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US; throughout the Canadian provinces of Alberta, Saskatchewan, British Columbia, and Manitoba; and internationally, in Albania.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Directional drilling services	116,365	76,153	53
Motor rental	8,612	5,642	53
Sale of motor equipment and parts	689	-	n.m.
Total US revenue	125,666	81,795	54
Reportable segment profit before tax ⁽ⁱ⁾	15,923	6,445	147

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

For the three-month period ended March 31, 2023, total US revenue increased by 54 percent to \$125.7 million as compared to \$81.8 million in the 2022-quarter. Revenue in the first quarter of 2023 closely mirrored the record quarterly revenue generated in the fourth quarter of 2022. Excluding the impact of foreign exchange, the revenue generated by PHX Energy's US operations in the 2023-quarter was an all-time quarterly record.

In the first quarter of 2023, the Corporation's US drilling activity increased by 19 percent to 4,820 operating days compared to 4,046 days in the first quarter of 2022, however, activity was flat as compared to the 4,843 days in the last quarter of 2022. In comparison, the US industry horizontal and directional rig count in the first quarter of 2023 increased by 22 percent to 742 rigs per day from 609 rigs per day in the first quarter of 2022. The US industry horizontal and directional rig count was flat when compared to the last quarter of 2022 when there was an average of 752 active horizontal and directional rigs per day. (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, <https://rigcount.bakerhughes.com/na-rig-count>). Horizontal and directional drilling continued to represent the majority of rigs running on a daily basis during the first quarter 2023. During the 2023-quarter, Phoenix USA was active in the Permian, Scoop/Stack, Marcellus, Utica, Bakken, and Niobrara basins.

For the three-month period ended March 31, 2023, average revenue per day⁽³⁾ for directional drilling services rose to \$24,142 from \$19,179 in the first quarter of 2022, a 26 percent increase. This increase was driven by high demand for the Corporation's premium technologies and increased capacity and utilization in the Corporation's RSS fleet. The strong US dollar in the 2023-

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period also supported the increase in average revenue per day. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services increased by 20 percent in the 2023-period compared to the same 2022-period.

In addition, as demand for the Corporation's technology continues to grow, the Corporation has expanded its motor rental business, specifically related to its Atlas motor fleet. In the first quarter of 2023, US motor rental revenue was \$8.6 million a 53 percent increase over the \$5.6 million in the same 2022-quarter. In the 2023 three-month period, PHX Energy also started supplying motor equipment and parts to a certain customer and expects this new stream of revenue to continue to grow in future periods.

For the three-month period ended March 31, 2023, the US segment realized reportable segment income before tax of \$15.9 million which is more than double the reportable segment profit before tax of \$6.4 million in the corresponding 2022-period. The improved profitability quarter-over-quarter was mainly due to growth in activity levels and average revenue per day, and effective cost controls.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Directional drilling services	38,602	26,841	44
Motor rental	629	271	132
Total Canadian revenue	39,231	27,112	45
Reportable segment profit (loss) before tax ⁽ⁱ⁾	7,887	3,494	126

⁽ⁱ⁾ Includes adjustments to intercompany transactions.

In the three-month period of 2023, PHX Energy's Canadian operations generated its highest level of quarterly revenue since the fourth quarter of 2014. For the three-month period ended March 31, 2023, PHX Energy's Canadian division generated \$39.2 million in revenue, an increase of 45 percent compared to \$27.1 million in the 2022-quarter.

The Canadian division generated 3,051 operating days in the first quarter of 2023, a 19 percent increase from the 2,571 days in the fourth quarter of 2022 and a 12 percent increase from the 2,730 days in the first quarter of 2022. In comparison, industry horizontal and directional drilling activity, as measured by drilling days, increased to 17,911 days in the first quarter of 2023 from 16,813 days in the fourth quarter of 2022 and 16,412 days in the first quarter of 2022, an increase of 7 percent and 9 percent, respectively (Source: Daily Oil Bulletin, hz-dir days 230331). PHX Energy's Canadian operating segment remains a leader in this market being among the top three service providers. During the 2023-quarter, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, and Scallion basins.

In order to protect margins, throughout the 2022-year and into 2023, PHX Energy's Canadian division was able to increase pricing as a result of marketing efforts to deploy more premium technology and to offset increased costs from inflation. In the first quarter of 2023, average revenue per day⁽³⁾ for directional drilling services increased by 27 percent to \$12,654 from \$9,931 in the corresponding 2022-quarter. The combination of increased activity levels and average revenue per day resulted in PHX Energy's Canadian division achieving higher levels of profitability in the 2023-quarter. For the three-month period ended March 31, 2023, the Corporation's Canadian division recognized reportable segment profit before tax of \$7.9 million (2022 - \$3.5 million).

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2023	2022	% Change
Revenue	1,125	397	183
Reportable segment profit (loss) before tax	406	(163)	n.m.

n.m. – not meaningful

The Corporation's international segment revenue is comprised of revenue from Albania. For the three-month period ended March 31, 2023, the international segment's revenue was \$1.1 million (2022-quarter - \$0.4 million). Albania operations were suspended in 2021 and resumed late in the first quarter of 2022 with one rig.

The international segment generated reportable segment profit before tax of \$0.4 million in the 2023 three-month period compared to reportable segment loss before tax of \$0.2 million in the 2022-period.

Investing Activities

Net cash used in investing activities for the period ended March 31, 2023 was \$5 million as compared to \$9.4 million in the 2022-period. During the first quarter of 2023, the Corporation spent \$10 million (2022 - \$13 million) to grow the Corporation's fleet of drilling equipment and \$8.6 million (2022 - \$5.2 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment and replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of \$12.4 million (2022 - \$5.3 million), the Corporation's net capital expenditures⁽²⁾ for the 2023-quarter were \$6.2 million (2022 - \$12.9).

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Growth capital expenditures	9,955	12,968
Maintenance capital expenditures	8,628	5,238
Total capital expenditures	18,583	18,206
Deduct:		
Proceeds on disposition of drilling equipment	(12,417)	(5,296)
Net capital expenditures ⁽²⁾	6,166	12,910

The 2023-period capital expenditures comprised of:

- \$6.5 million in downhole performance drilling motors;
- \$10.6 million in MWD systems and spare components and RSS; and
- \$1.5 million in machinery and equipment and other assets.

The change in non-cash working capital balances of \$1.1 million (source of cash) for the three-month period ended March 31, 2023, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to \$3.6 million (source of cash) for the three-month period ended March 31, 2022.

Financing Activities

For the three-month period ended March 31, 2023, net cash used in financing activities was \$1.6 million as compared to \$50 thousand generated from financing activities in the 2022-period. In the 2023-period:

- dividends of \$7.6 million were paid to shareholders;
- 114,000 common shares were purchased by an independent trustee in the open market for \$0.8 million and held in trust for the use of potential future settlements of restricted awards granted under the Corporation's RAP;
- payments of \$0.8 million were made towards lease liabilities;
- 131,500 common shares were issued from treasury for proceeds of \$0.3 million upon the exercise of share options; and
- \$7.3 million net in drawings were taken against the Corporation's syndicated credit facility.

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

Capital Resources

As of March 31, 2023, the Corporation had CAD \$30 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of \$15.5 million. As at March 31, 2023, the Corporation had CAD \$35 million and USD \$15 million available from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2025.

As at March 31, 2023, the Corporation was in compliance with all its financial covenants.

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. In order to continue the advantageous strategy of placing advanced orders and continue to mitigate the supply chain issues expected to continue throughout 2023, the Board has approved a 2023 capital expenditure program of \$61.5 million. Of the 2023 capital expenditures, \$19.7 million is expected to be allocated to maintain capacity in the existing fleet of drilling and other equipment and replace equipment lost downhole during drilling operations, and \$41.8 million is expected to be allocated to growth capital. The amount expected to be allocated towards replacing equipment lost downhole could increase should more downhole equipment losses occur throughout the year.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2023, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at March 31, 2023, the Corporation has commitments to purchase drilling and other equipment for \$32.5 million. Delivery is expected to occur within 2023.

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 to oil and natural gas exploration and development companies principally in Canada and the US. In connection with the services it provides, PHX Energy engineers, develops and manufactures leading-edge technologies. In recent years, PHX Energy has developed various new technologies that have positioned the Corporation as a technology leader in the horizontal and directional drilling services sector.

PHX Energy's Canadian directional drilling operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centers in Calgary, Alberta. In addition, PHX Energy has a facility in Estevan, Saskatchewan. PHX Energy's US operations, conducted through the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Midland, Texas; Casper, Wyoming; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania, and administrative offices in Nicosia, Cyprus and Luxembourg City, Luxembourg. The Corporation also supplies technology to the Middle East regions through an arrangement with National Energy Services Reunited Corp.

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

For further information please contact:

John Hooks, CEO; Michael Buker, President; or Cameron Ritchie, Senior Vice President Finance and CFO

PHX Energy Services Corp.

Suite 1600, 215 9th Avenue SW, Calgary Alberta T2P 1K3

Tel: 403-543-4466 Fax: 403-543-4485 www.phxtech.com

Consolidated Statements of Financial Position

(unaudited)

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,501,672	\$ 18,247,376
Trade and other receivables	127,407,506	125,836,273
Inventories	66,086,177	63,119,489
Prepaid expenses	4,452,425	3,024,166
Total current assets	213,447,780	210,227,304
Non-current assets:		
Drilling and other long-term assets	123,211,662	115,945,060
Right-of-use assets	29,466,771	29,336,163
Intangible assets	15,148,169	15,668,180
Investments	3,000,500	3,000,500
Other long-term assets	1,285,535	993,112
Deferred tax assets	53,869	53,869
Total non-current assets	172,166,506	164,996,884
Total assets	\$ 385,614,286	\$ 375,224,188
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 93,391,118	\$ 104,688,901
Dividends payable	7,655,810	7,636,085
Lease liability	3,021,497	2,906,708
Current tax liabilities	3,662,388	656,499
Total current liabilities	107,730,813	115,888,193
Non-current liabilities:		
Lease liability	36,428,442	36,768,003
Loans and borrowings	29,846,733	22,731,389
Deferred tax liability	18,702,450	18,496,619
Other	1,239,075	4,461,531
Total non-current liabilities	86,216,700	82,457,542
Equity:		
Share capital	251,446,119	251,344,809
Contributed surplus	7,036,354	7,044,317
Deficit	(97,318,427)	(112,120,484)
Accumulated other comprehensive income	30,502,727	30,609,811
Total equity	191,666,773	176,878,453
Total liabilities and equity	\$ 385,614,286	\$ 375,224,188

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(Re-presented – Note 11)

Three-month periods ended March 31,

	2023	2022
Revenue	\$ 166,022,119	\$ 109,304,059
Direct costs	131,988,199	91,917,448
Gross profit	34,033,920	17,386,611
Expenses:		
Selling, general and administrative expenses	15,556,126	22,113,255
Research and development expenses	1,256,419	756,559
Finance expense	666,840	111,796
Finance expense lease liability	576,386	507,016
Other income	(9,979,849)	(3,569,390)
	8,075,922	19,919,236
Earnings (loss) from continuing operations before income taxes	25,957,998	(2,532,625)
Provision for (recovery of) income taxes		
Current	2,723,641	(215,497)
Deferred	816,909	(1,946)
	3,540,550	(217,443)
Earnings (loss) from continuing operations	22,417,448	(2,315,182)
Discontinued operations		
Net loss from discontinued operations, net of taxes	-	(1,907,763)
Net earnings (loss)	22,417,448	(4,222,945)
Other comprehensive income		
Foreign currency translation	(107,084)	(2,319,470)
Total comprehensive earnings (loss) for the period	\$ 22,310,364	\$ (6,542,415)
Earnings (loss) per share – basic		
Continuing operations	\$ 0.44	\$ (0.05)
Discontinued operations	\$ -	\$ (0.04)
Net earnings (loss)	\$ 0.44	\$ (0.09)
Earnings (loss) per share – diluted		
Continuing operations	\$ 0.42	\$ (0.05)
Discontinued operations	\$ -	\$ (0.04)
Net earnings (loss)	\$ 0.42	\$ (0.09)

Condensed Consolidated Statements of Cash Flows

(unaudited)

(Re-presented – Note 11)
Three-month periods ended March 31,

	2023	2022
Cash flows from operating activities:		
Earnings (loss) from continuing operations	\$ 22,417,448	\$ (2,315,182)
Adjustments for:		
Depreciation and amortization	9,317,356	7,276,520
Depreciation and amortization right-of-use asset	407,439	836,046
Provision for income taxes	3,540,550	(217,443)
Unrealized foreign exchange gain	(26,311)	(90,526)
Net gain on disposition of drilling equipment	(9,956,165)	(3,581,750)
Equity-settled share-based payments	100,802	334,714
Finance expense	666,840	111,796
Finance expense lease liability	576,386	507,016
Provision for inventory obsolescence	269,396	527,017
Interest paid on lease liability	(576,386)	(507,016)
Interest paid	(512,604)	(50,923)
Income taxes received (paid)	(134,162)	205,356
Change in non-cash working capital	(22,185,377)	(6,458,571)
Continuing operations	3,905,212	(3,422,946)
Discontinued operations	-	(734,526)
Net cash from (used in) operating activities	3,905,212	(4,157,472)
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	12,417,452	5,296,416
Acquisition of drilling and other equipment	(18,582,920)	(18,206,230)
Acquisition of intangible assets	-	(411,275)
Change in non-cash working capital	1,141,297	3,635,013
Continuing operations	(5,024,171)	(9,686,076)
Discontinued operations	-	248,324
Net cash used in investing activities	(5,024,171)	(9,437,752)
Cash flows from financing activities:		
Proceeds from loans and borrowings	7,325,527	3,748,800
Proceeds from exercise of options	266,485	1,642,187
Dividends paid to shareholders	(7,636,086)	(2,482,060)
Purchase of shares held in trust	(808,293)	(2,000,000)
Payments of Lease Liability	(762,226)	(858,988)
Continuing operations	(1,614,593)	49,939
Discontinued operations	-	-
Net cash from (used in) financing activities	(1,614,593)	49,939
Net decrease in cash and cash equivalents	(2,733,552)	(13,545,285)
Cash and cash equivalents, beginning of period	18,247,376	24,828,830
Effect of movements in exchange rates on cash held	(12,152)	-
Cash and cash equivalents, end of period	\$ 15,501,672	\$ 11,283,545

Cautionary Statement Regarding Forward-Looking Information and Statements

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "could", "should", "can", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Corporation believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this document should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this document.

In particular, forward-looking information and statements contained in this document include without limitation, the anticipated industry activity and demand for the Corporation's services and technologies in North America, the Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through the ROCS Program, the projected capital expenditures budget 2023 and how the budget will be allocated and funded, the timeline for delivery of equipment on order, the anticipated delivery of assets under the Atlas sales agreement and the potential for ongoing parts orders and subsequent asset orders, the expectation that the Corporation will be able to expand its motor rentals and sales and that revenue will continue to grow in future periods and that this will also enhance profitability, the anticipated impact of global supply chain disruptions and inflation on the Corporation's operations, results, and the Corporation's planned responses thereto, and the anticipated continuation of PHX Energy's quarterly dividend program and the amounts of dividends.

The above are stated under the headings: "Financial Results", "Dividends and ROCS", "Capital Spending", "Sales and Licensed Use of Atlas Motors", "Supply Chain Disruption and Inflation", "Revenue", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the heading "Outlook" of this document may contain forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this document and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, without limitation, that: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions and the accuracy of the Corporation's market outlook expectations for 2023 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation, anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the impact of pandemics and the Russian-Ukrainian war on the global economy, specifically trade, manufacturing, supply chain, inflation and energy consumption, among other things and the resulting impact on the Corporation's operations and future results which remain uncertain, exchange and interest rates including the potential for further interest rate hikes by

global central banks and the impact on financing charges and foreign exchange and the anticipated global economic response to concerted interest rate hikes; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with the Canadian Securities Regulatory Authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation's website. The forward-looking statements and information contained in this document are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) **Adjusted EBITDA from Continuing Operations**

Adjusted EBITDA from continuing operations, defined as earnings before finance expense, finance expense lease liability, income taxes, depreciation and amortization, impairment losses on drilling and other equipment and goodwill and other write-offs, equity-settled share-based payments, severance payouts relating to the Corporation's restructuring cost, and unrealized foreign exchange gains or losses, does not have a standardized meaning and is not a financial measure that is recognized under GAAP. However, Management believes that adjusted EBITDA from continuing operations provides supplemental information to earnings from continuing operations that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed and how it was taxed in various countries. Investors should be cautioned, however, that adjusted EBITDA from continuing operations should not be construed as an alternative measure to earnings from continuing operations determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA from continuing operations may differ from that of other organizations and, accordingly, its adjusted EBITDA from continuing operations may not be comparable to that of other companies.

The following is a reconciliation of earnings from continuing operations to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Earnings (loss) from continuing operations:	22,417	(2,315)
Add:		
Depreciation and amortization drilling and other equipment	9,317	7,277
Depreciation and amortization right-of-use asset	407	836
Provision for (Recovery of) income taxes	3,541	(217)
Finance expense	667	112
Finance expense lease liability	576	507
Equity-settled share-based payments	101	335
Unrealized foreign exchange loss	(26)	(91)
Adjusted EBITDA from continuing operations	37,000	6,444

b) Adjusted EBITDA from Continuing Operations Per Share - Diluted

Adjusted EBITDA from continuing operations per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of adjusted EBITDA from continuing operations per share - dilutive is based on the adjusted EBITDA from continuing operations as reported in the table above divided by the diluted number of shares outstanding at the period end.

c) Adjusted EBITDA from Continuing Operations as a Percentage of Revenue

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

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

Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense is calculated by adding cash-settled share-based compensation expense to adjusted EBITDA from continuing operations as described above.

The following is a reconciliation of earnings from continuing operations to adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Earnings (loss) from continuing operations:	22,417	(2,315)
Add:		
Depreciation and amortization drilling and other equipment	9,317	7,277
Depreciation and amortization right-of-use asset	407	836
Provision for (Recovery of) income taxes	3,541	(217)
Finance expense	667	112
Finance expense lease liability	576	507
Equity-settled share-based payments	101	335
Unrealized foreign exchange loss	(26)	(91)
Cash-settled share-based compensation expense	1,374	11,737
Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense	38,374	18,181

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

Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense as a percentage of revenue is calculated by dividing adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense as reported above by revenue as stated on the Condensed Consolidated Statements of Comprehensive Earnings.

f) Gross Profit as a Percentage of Revenue Excluding Depreciation & Amortization

Gross profit as a percentage of revenue excluding depreciation & amortization is defined as the Corporation's gross profit excluding depreciation and amortization divided by revenue and is used to assess operational profitability. This Non-GAAP ratio does not have a standardized meaning and is not a financial measure recognized under GAAP. PHX Energy's method of calculating gross profit as a percentage of revenue may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of revenue, direct costs, depreciation and amortization, and gross profit to gross profit as a percentage of revenue excluding depreciation and amortization:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
Revenue	166,022	109,304
Direct costs	131,988	91,917
Gross profit	34,034	17,387
Depreciation & amortization drilling and other equipment (included in direct costs)	9,317	7,277
Depreciation & amortization right-of-use asset (included in direct costs)	407	836
	43,758	25,500
Gross profit as a percentage of revenue excluding depreciation & amortization	26%	23%

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

SG&A costs excluding share-based compensation as a percentage of revenue is defined as the Corporation's SG&A costs excluding share-based compensation divided by revenue and is used to assess the impact of administrative costs excluding the effect of share price volatility. This Non-GAAP ratio does not have a standardized meaning and is not a financial measure recognized under GAAP. PHX Energy's method of calculating SG&A costs excluding share-based compensation as a percentage of revenue may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of SG&A costs, share-based compensation, and revenue to SG&A costs excluding share-based compensation as a percentage of revenue:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2023	2022
SG&A Costs	15,556	22,113
Deduct:		
Share-based compensation (included in SG&A)	1,475	12,072
	14,081	10,041
Revenue	166,022	109,304
SG&A costs excluding share-based compensation as a percentage of revenue	8%	9%

Capital Management Measures

h) 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,	
	2023	2022
Cash flows from operating activities	3,905	(3,423)
Add (deduct):		
Changes in non-cash working capital	22,185	6,459
Interest paid	513	51
Income taxes paid (received)	134	(205)
Funds from operations	26,737	2,882

a) 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,	
	2023	2022
Cash flows from operating activities	3,905	(3,423)
Add (deduct):		
Changes in non-cash working capital	22,185	6,459
Interest paid	513	51
Income taxes paid (received)	134	(205)
Cash payment on leases	(1,339)	(1,366)
	25,398	1,516
Proceeds on disposition of drilling equipment	12,417	5,296
Maintenance capital expenditures	(8,628)	(5,238)
Net proceeds	3,789	58
Growth capital expenditures	(9,955)	(12,968)
Excess cash flow	19,232	(11,394)

b) 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, 2023	December 31, 2022
Current assets	213,448	210,227
Deduct:		
Current liabilities	(107,731)	(115,888)
Working capital	105,717	94,339

c) Net Debt

Net debt is defined as the Corporation's operating facility and loans and borrowings less cash and cash equivalents. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses net debt to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating net debt may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of operating facility, loans and borrowings, and cash and cash equivalents to net debt:

(Stated in thousands of dollars)

	March 31, 2023	December 31, 2022
Loans and borrowings	29,847	22,731
Deduct:		
Cash and cash equivalents	(15,502)	(18,247)
Net debt	14,345	4,484

d) **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,	
	2023	2022
Growth capital expenditures	9,955	12,968
Maintenance capital expenditures	8,628	5,238
Total capital expenditures	18,583	18,206
Deduct:		
Proceeds on disposition of drilling equipment	(12,417)	(5,296)
Net capital expenditures	6,166	12,910

Supplementary Financial Measures

“Average consolidated revenue per day” is comprised of consolidated revenue, as determined in accordance with IFRS, divided by the Corporation's consolidated number of operating days. Operating days is defined under the “Definitions” section below.

“Average revenue per operating day” is comprised of revenue, as determined in accordance with IFRS, divided by the number of operating days.

“Dividends paid per share” is comprised of dividends paid, as determined in accordance with IFRS, divided by the number of shares outstanding at the dividend record date.

“Effective tax rate” is comprised of provision for or recovery of income tax, as determined in accordance with IFRS, divided by earnings from continuing operations before income taxes, as determined in accordance with IFRS.

“Funds from operations per share – diluted” is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of funds from operations per share - diluted is based on the funds from operations as reported in the table above divided by the diluted number of shares outstanding at period end.

Definitions

“Operating days” throughout this document, it is referring to the billable days on which PHX Energy is providing services to the client at the rig site.

“Capital expenditures” equate to the Corporation's total acquisition of drilling and other equipment as stated on the Condensed Consolidated Statements of Cash Flows and Note 6(a) in the Notes to the Condensed Consolidated Financial Statements.

“Growth capital expenditures” are capital expenditures that were used to expand capacity in the Corporation's fleet of drilling equipment.

“Maintenance capital expenditures” are capital expenditures that were used to maintain capacity in the Corporation's fleet of drilling equipment and replace equipment that were lost downhole during drilling operations.