PHX
ENERGY SERVICES CORP.

Press Release
November 7, 2022
TSX – PHX
Calgary, Alberta

PHX Energy Announces Strong Third Quarter Results, A Further Increase to its Quarterly Dividend, It's Preliminary 2023 Capital Expenditures Budget and A New Shareholder Return of Capital Strategy - ROCS Program

Third Quarter Highlights

- Consolidated revenue of $142.4 million is the highest third quarter revenue on record and the second highest quarterly revenue in the Corporation's history.
- The Corporation's adjusted EBITDA[(1)] from continuing operations increased to $27.3 million, 19 percent of consolidated revenue[(1)]. This is the highest third quarter adjusted EBITDA on record. Included in the 2022-quarter's adjusted EBITDA is $5.2 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations in the third quarter was $32.5 million, 23 percent of consolidated revenue.
- Earnings from continuing operations of $13.5 million are three times the earnings generated in the 2021-quarter and the best third quarter result in the Corporation's history.
- For the third consecutive quarter, PHX Energy's US division generated its highest quarterly revenue on record. US revenue was $110.2 million in the third quarter of 2022, representing 77 percent of consolidated revenue.
- PHX Energy's Canadian division reported its highest level of quarterly revenue since the first quarter of 2015.
- The Corporation generated free cash flow[(1)] of $19.3 million, an 109 percent increase over the third quarter of 2021.
- A strengthening US dollar positively impacted the quarter's financial results.
- With the robust industry activity anticipated to continue, the Board of Directors (the "Board") has approved a preliminary 2023 capital expenditures budget of $50 million, which will be primarily dedicated to expanding and maintaining the fleet of high performance technologies. The Corporation anticipates the high demand for its premium technologies to continue and believes placing advanced orders for equipment in 2023 will be advantageous.
- We are pleased to announce that the Board approved a Return of Capital Strategy ("ROCS" or the "Program") that establishes the Corporation's intention for creating unprecedented shareholder rewards. Highlights of the ROCS include:

[(1)] Non-GAAP 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 Measures section of this Press Release.

- Maintaining a strong balance sheet with little to no bank debt.
- Growth capital expenditures will be available for expanding the fleet in the most attractive basins.
- Base dividends will be a focus.
- Special dividends can be triggered with available excess cash.
- Share buy backs may be considered if deemed accretive.

- The Program approved by the Board will allow up to 70 percent of 2023 excess cash flow (defined as free cash flow less growth capital) to be used for shareholder rewards.

- In light of continued strong financial performance, PHX Energy's Board has approved a further increase to the quarterly dividend to $0.15 per share effective for the dividend payable to shareholders of record at the close of business on December 31, 2022. This is the fourth dividend increase since the dividend program was reinstated in December 2020 with a quarterly dividend of $0.025. On October 17, 2022, a quarterly dividend of $0.10 per common share was paid to shareholders.

- The Corporation maintained a strong financial position with working capital(1) of $89.2 million and with its credit facility capacity in excess of $56 million.

- Despite the strong results, the Corporation was adversely impacted by supply chain challenges and inflation which caused increased costs and component shortages with certain suppliers which constrained the level of activity and equipment utilization. These challenges are expected to persist into 2023 and the Corporation will continue to leverage its strong position and implement strategies to mitigate the impacts to its operations.

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Operating Results – Continuing Operations	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**142,418**	93,338	53	**377,987**	237,650	59
Earnings	**13,475**	4,206	220	**23,978**	13,987	71
Earnings per share – diluted	**0.27**	0.08	238	**0.48**	0.27	78
Adjusted EBITDA (1)	**27,315**	14,108	94	**58,845**	42,755	38
Adjusted EBITDA per share – diluted (1)	**0.53**	0.28	89	**1.16**	0.83	40
Adjusted EBITDA as a percentage of revenue (1)	**19%**	15%		**16%**	18%	
Cash Flow – Continuing Operations						
Cash flows from operating activities	**21,627**	22,301	(3)	**29,367**	32,580	(10)
Funds from operations (1)	**22,711**	13,337	70	**47,413**	37,438	27
Funds from operations per share – diluted (1)	**0.44**	0.26	69	**0.94**	0.72	31
Dividends paid per share	**0.075**	0.025	200	**0.200**	0.075	167
Dividends paid	**3,797**	1,260	201	**10,069**	3,785	166
Capital expenditures	**18,631**	6,751	176	**52,051**	24,159	115
Free cash flow (1)	**19,312**	9,237	109	**40,048**	32,231	24
Financial Position (unaudited)				**Sept 30'22**	Dec 31, '21	
Working capital (1)				**89,228**	57,872	54
Net debt (Net cash) (1)				**(3,024)**	(24,829)	(88)
Shareholders' equity				**165,017**	134,432	23
Common shares outstanding				**50,708,295**	47,978,662	6

(1) Non-GAAP 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 Measures section of this Press Release.

Outlook

The momentum from the first half of the year carried over into our third quarter, and once again we achieved strong quarterly financial results, with some measures being the highest in our history. Intense demand for our premium technologies continued to drive these achievements, and our record-breaking performance solidified our position as an outlier in our industry, both in terms of our balance sheet strength and the shareholder value we have created.

- Our record quarterly results were hindered by supply chain issues for certain key components, and this delayed the manufacturing of some premium technologies. We believe that without these issues, our operating days could have been approximately 5-10 percent greater in the quarter.
- Although capital equipment is expected to be delivered this quarter, we will continue to face supply chain challenges related to deploying additional capacity for our high performance fleets. Our team is working diligently to overcome these, and we believe we will see the full benefit from our 2022 capital expenditures program by the end of the first quarter of 2023.
- We foresee the favorable industry conditions in 2022 continuing into 2023, and believe the 2023 North American rig count will be 1,000-1,100 active rigs per day. Although there are indicators of a possible recession, we believe that with the current energy supply demand imbalance and geopolitical environment it is likely to somewhat shelter our industry as compared to the severity of the past few downturns.
- Bullish demand for premium technologies continues as Operators push for superior operational performance, and we expect to gain additional market share at favorable rates as this demand outpaces the inventory of premium technology. Our fleet is currently operating at maximum utilization and we foresee this continuing.
- Our proactive strategy of placing capital expenditure orders well in advance was paramount to the continued achievement of record results in 2022, and we plan on continuing on this path. The Board approved a preliminary 2023 capital expenditures budget of $50 million, which is one of the highest levels in our history, to ensure we can place additional orders for both growth and maintenance capital to remain equipped for future successes.
- We are committed to maintaining one of the strongest balance sheets in the sector, leveraging our operational strategies and growth to facilitate opportunities to create shareholder rewards.
- Over the past five years we have leveraged various avenues to create shareholder value, which include reducing the shares outstanding through NCIB programs in a time when our share price was advantageous, reinstating our dividend and subsequently increasing the amount paid per share to ensure our shareholders are benefiting from our strong position.
- We are pleased that once again we are positioned to increase our quarterly dividend and announce the ROCS program which we anticipate will add to the current dividend program in 2023. The new level of dividend payment that will commence for the dividend payable January 16, 2023 equates to approximately $30.5 million annually based on the 50.8 million shares outstanding.

- We believe we will be able to reward shareholders through ROCS in 2023 while we continue to grow the business through capital expenditures in a favourable market where our technologies are in high demand.

We are steadfast in our commitment to remaining the leading provider in our sector and continuing to grow in what is a unique upcycle in the industry. We are an outlier within our industry, providing Operators best in class performance and our shareholders unmatched rewards. We believe we are strongly positioned to continue these successes in 2023 and will remain diligent on executing strategies that will continue this positive momentum.

Michael Buker, President
November 7, 2022

Financial Results

PHX Energy continued to generate record revenue and earnings despite the negative impacts of supply chain challenges, inflationary costs, and labour shortages, that became more prominent in the third quarter of 2022. The Corporation's high performance technology fleets increased in capacity, specifically Velocity Real Time-Time Systems ("Velocity"), PowerDrive Orbit Rotary Steerable Systems ("RSS"), and Atlas High Performance ("Atlas") Motors, with additional equipment received as part of the 2022 capital expenditure program. This extra capacity along with robust North American industry drilling activity helped drive growth for the Corporation in the period. However, the achieved growth was curbed by the availability of and long lead time for certain components which delayed equipment servicing and in turn limited fleet utilization.

For the three-month period ended September 30, 2022, PHX Energy's consolidated revenue from continuing operations grew to $142.4 million from $93.3 million in the comparative 2021-quarter, an increase of 53 percent. This level of revenue is the highest third quarter revenue in the Corporation's history and the second highest quarterly revenue on record. Consolidated activity reached 7,578 operating days in the 2022-quarter, 32 percent higher relative to 5,753 operating days in the 2021-period. Average revenue per day excluding US motor rentals also improved by 16 percent from $15,567 in the 2021-quarter to $18,008 in the 2022-quarter.

For the third consecutive quarter, the US division attained its highest quarterly revenue on record. In the 2022 three-month period, US revenue increased by 49 percent to $110.2 million from $74 million in the corresponding 2021-quarter. This increase in revenue is mainly attributable to the US segment's strong drilling activity which grew by 28 percent in the 2022-quarter to 4,653 operating days from 3,626 days in the 2021-quarter. The US division's revenue represented 77 percent of the Corporation's consolidated revenue from continuing operations for the period (2021 – 79 percent).

PHX Energy's Canadian segment also saw substantial improvements in revenue and activity. For the three-month period ended September 30, 2022, Canadian revenue increased by 60 percent to $31 million from $19.3 million in the corresponding 2021-period. The Canadian division recorded 2,835 operating days in the 2022-quarter, a 33 percent increase from the 2,128 operating days realized in the comparable 2021-quarter. The increase in the Canadian segment's drilling activity quarter-over-quarter was consistent with the Canadian market's activity where the average quarterly rig count increased 32 percent from 151 in the 2021-period to 199 in the 2022-period (Source: Baker Hughes).

As a result of the considerable improvements in revenue and activity, and the Corporation's ability to mitigate some of the supply chain challenges and inflationary pressures, both earnings and adjusted EBITDA from continuing operations in the 2022-quarter were the highest achieved in a third quarter. Adjusted EBITDA increased by 94 percent to $27.3 million quarter-over-quarter, 19 percent of revenue (2021-quarter - $14.1 million, 15 percent of revenue) and earnings from continuing operations of $13.5 million is three times the $4.2 million of earnings reported in the 2021-quarter. For the nine-month period ended September 30, 2022, adjusted EBITDA from continuing operations increased by 38 percent to $58.8 million (2021 – $42.8 million) and earnings from continuing operations increased by 71 percent to $24 million (2021 - $14 million). Included in the 2021 nine-month period's adjusted EBITDA and earnings from continuing operations is $8.5 million of government grants. Excluding the impact of government grants, adjusted EBITDA from continuing operations improved by 72 percent in the 2022 nine-month period. Also included in the 2022 three and nine-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $5.2 million (2021 - $3.4 million) and $17.6 million (2021 - $9.9 million), respectively. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations for the three and nine-month period ended September 30, 2022 is $32.5 million (2021 - $17.5 million) and $76.5 million (2021 - $52.7 million), respectively.

As at September 30, 2022, the Corporation continued to maintain a strong balance sheet with working capital of $89.2 million and available credit facilities in excess of $56 million.

Dividends

In light of the continued strong performance and financial results, the Board has approved another increase to the Corporation's quarterly dividend to $0.15 per common share from $0.10 per common share, commencing with the dividend payable January 16, 2023 to shareholders of record at the close of business on December 30, 2022. This is the fourth dividend increase since its re-instatement in December 2020 and is a 500 percent increase from the dividend payable on December 31, 2020.

On September 15, 2022, PHX Energy declared a cash dividend of $0.10 per common share, increased from the previous $0.075 per share, payable to shareholders of record at the close of business on September 30, 2022. An aggregate of $5.1 million was paid on October 17, 2022.

Capital Spending

In the third quarter of 2022, the Corporation spent $18.6 million on capital expenditures, which is $11.8 million greater than the expenditures of $6.8 million in the 2021-quarter. Capital expenditures for the 2022-quarter were primarily directed towards Atlas motors, Velocity systems, and RSS. Of the total capital expenditures in the 2022-quarter, $10.2 million was spent on growing the Corporation's fleet of drilling equipment and the remaining $8.4 million was spent on maintenance of the current fleet of drilling and other equipment. The Corporation funded capital spending primarily using cash flows from operations and its credit facilities when required.

As at September 30, 2022, the Corporation has commitments to purchase drilling and other equipment for $46.7 million. Majority of the purchases are expected to be delivered throughout the last quarter of the 2022-year, with the remaining anticipated in the first quarter of 2023. The full benefit of these delivers is anticipated by the end of the first quarter of 2023. The commitments include $20 million for Velocity systems, $20.6 million for performance drilling motors primarily relating to Atlas, and $6.1 million for RSS and other machinery and equipment. As previously announced, the Board approved to increase the 2022 capital expenditure program to $85 million to allow the Corporation to proactively order materials and equipment to expand its fleet for activity in late 2022 and into 2023. Given the current supply chain environment, lead times and costs are increasing and the Corporation's ability to place advanced orders is continuing to create a competitive advantage.

In order to continue this advantageous strategy of placing advanced orders in a robust industry environment and continue to mitigate the supply chain issues expected to continue into 2023, the Board has approved a preliminary 2023 capital expenditure program of $50 million. A large portion of these expenditures are expected to be delivered in the first quarter of 2023 to support activity levels in the later half of the year. Of the 2023 capital expenditures, $25 million is anticipated to be spent on growing PHX Energy's fleet of drilling and other equipment and $25 million on maintenance of the fleet of drilling and other equipment.

The Corporation currently possesses approximately 607 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 43 PowerDrive Orbit RSS, the largest independent fleet in North America.

COVID-19, Supply Chain Disruptions, and Inflation

In the third quarter of 2022 industry and economic conditions continued to improve as most of the COVID-19 restrictions have been lifted by governments. However, supply chain challenges escalated and continued to create shortages and inflation related to the products and services required within the energy sector, including those within the Corporation's supply chain. These shortages resulted in increased turn-around times for servicing the Corporation's premium technologies and in turn limited equipment utilization and constrained activity growth. Inflationary pressures led to overall cost increases and have negatively impacted the Corporation's margins.

PHX Energy has been proactive with efforts to lessen the supply chain disruptions' impact on its operations. Specifically, the Corporation has maintained higher minimum safety stock levels and taken advantage of bulk discounts, and as a result, inventory levels have increased by 59 percent from $36.7 million at the end of 2021 to $58.3 million at September 30, 2022.

In addition, to mitigate the impact of inflationary costs and to protect its margins, the Corporation also continues to pursue pricing increases where possible to its customers.

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

Shares Held in Trust

For the three-month period ended September 30, 2022, the Corporation equity settled a portion of its outstanding Retention Awards ("RA") under its Retention Award Plan (the "RAP"). Pursuant to the RA settlement, 172,788 common shares were issued in the third quarter of the 2022-year to settle $0.9 million in RAP liabilities. The Corporation, through an independent trustee, acquires common shares on the open market from time-to-time for the potential settlement of future share-based compensation obligations. For the three-month period ended September 30, 2022, the trustee did not purchase common shares. As at September 30, 2022, 73,044 common shares are held in trust for purposes of the RAP.

Normal Course Issuer Bid

During the third quarter of 2022, 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 3,622,967 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 3, 2022. The NCIB commenced on August 16, 2022 and will terminate on August 15, 2023 or such earlier time as the NCIB is completed or terminated by PHX Energy. 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. For the nine-month period ending September 30, 2022, the Corporation did not repurchase shares through its previous and current NCIB. Pursuant to the previous NCIB, 1,499,900 common shares were purchased by the Corporation and cancelled as at December 31, 2021.

Non-GAAP Measures

Throughout this Press Release, PHX Energy uses certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP"). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA per share, adjusted EBITDA as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization and government grants, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, funds from operations, funds from operations per share, free cash flow, 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 Measures" section following the Outstanding Corporation Share Data section of this Press Release for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Revenue

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**142,418**	93,338	53	**377,987**	237,650	59

For the three-month period ended September 30, 2022, the Corporation generated consolidated revenue of $142.4 million as compared to $93.3 million in the 2021-quarter, an increase of 53 percent. As a result of stronger US and Canadian industry drilling activity and expanded capacity in the Corporation's high performance technology fleets, PHX Energy's activity levels grew relative to the 2021-quarter. The Corporation's consolidated operating days increased by 32 percent from 5,753 days in the 2021-quarter to 7,578 days in the 2022-quarter. The average consolidated revenue per day, excluding the motor rental division in the US, rose by 16 percent to $18,008 in the 2022-quarter relative to $15,567 in the corresponding 2021-quarter. The higher revenue per day was mainly driven by pricing increases implemented to help curtail inflationary costs and the strengthening of the US dollar relative to the 2021-quarter. For the three-month period ended September 30, 2022, US revenues represented 77 percent of consolidated revenue from continuing operations (2021 – 79 percent).

During the third quarter of 2022, the Western Texas Intermediate ("WTI") crude oil price was 28 percent higher than in the 2021-quarter averaging USD $91/bbl (2021-quarter – USD $71/bbl) and the Western Canadian Select ("WCS") oil prices also showed a 31 percent increase averaging CAD$94/bbl (2021-quarter – CAD $72/bbl). Robust commodity prices continued in the 2022 three-month period and this supported industry activity levels in both Canada and the US, which improved quarter-over-quarter. In the third quarter of 2022, an average of 733 rigs (2021-quarter – 475 rigs) operated per day in the US and an average of 199 rigs (2021-quarter – 151 rigs) operated per day in Canada. Throughout North America, the vast majority of wells continued to be horizontal and directional representing 96 percent of all wells drilled in Canada and 96 percent of the average number of rigs operating per day in the US (Sources: Peters & Co., Daily Oil Bulletin and Baker Hughes).

For the nine-month period ended September 30, 2022, the Corporation realized consolidated revenue of $378 million, a 59 percent increase, compared to the $237.7 million in the same 2021-period. The improvement in revenue for the 2022 nine-month period was primarily a result of strong activity levels, high performance technology offerings, pricing increases, and the strengthening of the US dollar in the 2022-period relative to 2021. For the 2022-period, the average consolidated revenue per day, excluding the motor rental division in the US, was $17,421 as compared to $14,970 in the 2021-period, an increase of 16 percent. In the nine-month period ended September 30, 2022, there were 20,859 operating days recorded which rose by 37 percent relative to 15,240 days in the corresponding 2021-period.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Direct costs	**111,734**	74,546	50	**304,200**	188,499	61
Depreciation & amortization drilling and other equipment (included in direct costs)	**8,143**	6,453	26	**23,243**	18,962	23
Depreciation & amortization right-of-use asset (included in direct costs)	**745**	838	(11)	**2,430**	2,500	(3)
Gross profit as a percentage of revenue excluding depreciation & amortization and government grants(1)	**28%**	28%		**26%**	27%	

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 September 30, 2022, direct costs increased by 50 percent to $111.7 million from $74.5 million in the 2021-quarter. A portion of the increase in direct costs was attributable to increased activity levels, and in addition, PHX Energy continued to face labour shortages and inflationary cost increases resulting in higher personnel expenses and rising costs related to equipment repairs and rentals.

The Corporation's depreciation and amortization on drilling and other equipment for the three-month period ended September 30, 2022, increased by 26 percent from $6.5 million to $8.1 million as capital expenditures progressively increased in the 2021-year and 2022-period.

In the three and nine-month periods of 2022, gross profit as a percent of revenue excluding depreciation and amortization and government grants were 28 percent and 26 percent, respectively, compared to 28 percent and 27 percent respectively in 2021. Included in the 2021 nine-month period's direct costs are $6.6 million of government grants. The slight decrease in year-to-date gross profitability in 2022 relative to the corresponding 2021-period is mainly due to the effect of inflationary cost increases. In addressing inflation, management continues to take a proactive approach by leveraging volume purchases, bulk discounts, and other strategies to soften the impact of rising material and service costs.

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(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Selling, general and administrative ("SG&A") costs	**15,589**	12,326	26	**49,536**	31,938	55
Cash-settled share-based compensation (included in SG&A costs)	**5,178**	3,380	53	**17,630**	9,948	77
Equity-settled share-based compensation (included in SG&A costs)	**133**	116	15	**393**	335	17
SG&A costs excluding share-based compensation as a percentage of revenue (1)	**7%**	9%		**8%**	9%	

For the three and nine-month periods ended September 30, 2022, the Corporation's SG&A costs were $15.6 million and $49.5 million respectively, as compared to $12.3 million and $31.9 million in the corresponding 2021-periods. Increased SG&A costs in both periods were primarily due to higher personnel-related costs incurred to support the increase in drilling activity and higher compensation expenses related to cash-settled share-based awards. The 2021 nine-month period's SG&A costs also included $1.9 million of government grants.

For the three and nine-month periods ended September 30, 2022, SG&A costs included share-based compensation expenses totaling $5.3 million (2021 - $3.5 million) and $18 million (2021 - $10.3 million), respectively. Excluding share-based compensation, SG&A costs as a percentage of revenue for the three and nine-month period ended September 30, 2022 decreased to 7 percent and 8 percent, respectively, from 9 percent in both corresponding 2021-periods.

Share-based compensation mainly relates to retention awards which are measured at fair value and the increase in both 2022-periods was primarily due to increases in the Corporation's share price.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Research & development expense	**909**	540	68	**2,539**	1,725	47

Research and development ("R&D") expenditures for the three and nine-month periods ended September 30, 2022 were $0.9 million (2021 - $0.5 million) and $2.5 million (2021 - $1.7 million), respectively. Throughout the 2022-year, as the Corporation's activity levels increased, the R&D department also worked on a greater number of initiatives focused on developing new technologies, improving the reliability of equipment, and reducing costs to operations. In the 2022-periods, higher personnel-related costs, equipment parts, and prototype expenses were necessary to support these initiatives.

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(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Finance expense	**499**	114	338	**873**	380	130
Finance expense lease liability	**498**	527	(6)	**1,507**	1,609	(6)

Finance expense mainly relates to interest charges on the Corporation's long-term and short-term bank facilities. For the three and nine-month periods ended September 30, 2022, finance charges increased to $0.5 million (2021 - $0.1 million) and $0.9 million (2021 - $0.4 million), respectively, due to higher amounts drawn on the credit facilities as the Corporation secures equipment and materials to facilitate continued growth.

Finance expense lease liability relates to interest expenses incurred on lease liabilities. In both the three and nine-month periods, it decreased by 6 percent as the Corporation's long-term leases have been expiring and renewed with more favorable terms.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Net (gain) loss on disposition of drilling equipment	**(4,157)**	39	**(10,799)**	(4,263)
Foreign exchange (gains) losses	**205**	(77)	**281**	(16)
Recovery of bad debts	**(2)**	(14)	**(2)**	(279)
Other	**-**	-	**(512)**	-
Other income	**(3,954)**	(52)	**(11,032)**	(4,558)

For the three and nine-month periods ended September 30, 2022, the Corporation recognized other income of $4 million and $11 million, respectively (2021 - $52 thousand and $4.6 million, respectively). In both periods, the improvement was mainly driven by increases in the 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 and self-insured downhole equipment losses. In both 2022-periods, as drilling activity grew, more instances of downhole equipment losses occurred as compared to the corresponding 2021-periods, resulting in a higher net gain on disposition of drilling equipment.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Provision for income taxes	**3,667**	1,131	**6,384**	4,070
Effective tax rates	**21%**	21%	**21%**	23%

For the three and nine-month periods ended September 30, 2022, the Corporation reported income tax provisions of $3.7 million (2021 - $1.1 million) and $6.4 million (2021 - $4.1 million), respectively. Higher provisions in the 2022-periods were mainly a result of improved taxable profits in the US.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**30,996**	19,322	60	**77,839**	45,018	73
Reportable segment profit before tax(1)	**4,479**	2,258	98	**7,930**	4,807	65

(1) Includes adjustments to intercompany transactions.

For the three and nine-month periods ended September 30, 2022, PHX Energy's Canadian revenue was $31 million and $77.8 million, respectively, in comparison to revenue of $19.3 million and $45 million in the corresponding 2021-periods. The three-month period revenue is the highest level of quarterly revenue generated since the first quarter of 2015.

For the three and nine-month periods ended September 30, 2022, operating days improved 33 and 46 percent to 2,835 days and 7,252 days, respectively, compared to 2,128 days and 4,982 days in the comparable 2021-periods. In comparison industry horizontal and directional drilling activity, as measured by drilling days, increased 31 percent to 17,191 days in the third quarter of 2022 and 38 percent to 43,760 for the first nine-months of the 2022-year (Source: Daily Oil Bulletin).

Despite a higher volume of active rigs operating in 2022, the Canadian market remained highly competitive. However, the Canadian division was successful in maintaining its market share and well-diversified client base. During the 2022-quarter, PHX Energy was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, and Scallion basins.

Like other companies in the oil and gas services sector, PHX Energy's Canadian operations were faced with supply chain challenges, inflationary cost increases, and labour shortages that resulted in rising costs related to personnel, equipment repairs, and rentals. To curtail some of these costs, despite the highly competitive market, pricing increases were negotiated with customers where possible. These efforts along with greater volumes of activity resulted in the Corporation's Canadian division nearly doubling its reportable segment profit before tax in the third quarter of 2022 to $4.5 million from $2.3 million in the 2021-quarter. For the 2022 nine-month period, the division's reportable segment profit before tax also improved, increasing 65 percent to $7.9 million from $4.8 million in the comparable 2021-period.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**110,228**	74,016	49	**297,390**	192,632	54
Reportable segment income before tax(1)	**17,056**	8,760	95	**40,387**	23,611	71

(1) Includes adjustments to intercompany transactions.

For the third consecutive quarter, PHX Energy's US division achieved the highest quarterly divisional revenue in the Corporation's history. In the 2022-quarter, US revenue improved by 49 percent to $110.2 million as compared to $74 million in the corresponding 2021-quarter. PHX Energy's US drilling activity increased by 28 percent in the 2022-quarter to 4,653 days compared to 3,626 days in the same 2021-quarter. US industry horizontal and directional rig count in the third quarter of 2022 increased by 54 percent quarter-over-quarter with an average of 733 active horizontal and directional rigs per day in 2022 compared to an average of 475 active horizontal and directional rigs per day in the 2021-quarter (Source: Baker Hughes).

During the 2022-quarter, PHX Energy's fleet utilization was negatively impacted by shortages of certain components which resulted in delays to equipment servicing that in turn limited the Corporation's activity growth. Despite the limitations on drilling activity, the Corporation's high-performance technologies and superior operational performance that is driven by personnel and equipment continued to be in high demand. As a result of this demand and targeted marketing efforts, PHX Energy's US division was able to increase pricing to its customers. For the three-month period ended September 30, 2022, revenue per day, excluding the Corporation's US motor rental division, rose by 16 percent to $22,408 compared to $19,388 in the corresponding 2021-quarter. The increase in revenue per day is also partly attributable to the strengthening of the US dollar. The US-denominated average revenue per day increased by 11 percent quarter-over-quarter from USD $15,391 to USD $17,158.

For the three-month period ended September 30, 2022, PHX Energy's US operations' reportable segment profit before tax almost doubled to $17.1 million from $8.8 million in the same 2021-period. The significant improvement in divisional profit is primarily attributable to improved activity levels and effective inflation-mitigating strategies deployed by management.

Horizontal and directional drilling continues to represent the majority of rigs running on a daily basis during the third quarter of 2022. For the three-month period ended September 30, 2022, the Corporation's US division was active in the Permian, SCOOP/STACK, Marcellus, Bakken, and Niobrara basins.

Throughout the nine-month period ended September 30, 2022, the Corporation continued to leverage its high-performance technologies and generated higher operational days and higher revenue per day. Drilling activity for the nine-month period ended September 30, 2022, increased 31 percent to 13,405 days as compared to 10,258 days in the same 2021-period. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, improved by 59 percent to 680 rigs in the first three quarters of 2022 as compared to an average of 427 rigs in the comparable 2021-period (Source: Baker Hughes). For the nine-month period ended September 30, 2022, average revenue per day, excluding the Corporation's motor rental division, was $21,095, which is 18 percent higher than the $17,867 reported in the 2021-period. For the nine-month period ended September 30, 2022, the US-denominated revenue per day increased to USD $16,424, which is 15 percent higher compared to USD $14,288 achieved in the comparable 2021-period.

For the nine-month period ended September 30, 2022, a reportable segment income before tax of $40.4 million was realized as compared to $23.6 million in the corresponding 2021-period. Higher profitability in the period is mainly attributed to the growth in activity levels and revenue per day.

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**1,194**	-	n.m.	**2,758**	-	n.m.
Reportable segment profit (loss) before tax	**420**	(302)	n.m.	**781**	(1,101)	n.m.

n.m. – not meaningful

The Corporation's International segment revenue is mainly comprised of revenue from Albania. For the three and nine-month periods ended September 30, 2022, International revenue increased to $1.2 million and $2.8 million, respectively, as compared to nil in the 2021-periods as Albania operations were paused at that time and resumed late in the first quarter of 2022 with one rig. With the resumption of activity in 2022, the International segment realized reportable segment profits of $0.4 million and $0.8 million for the three and nine-month periods (2021 – loss of $0.3 million and loss of $1.1 million, respectively.)

Discontinued Operations – Russia

On June 30, 2022, the Corporation disposed of the Russian division operating under the entity, Phoenix TSR. Accordingly, for the three and nine-month periods ended September 30, 2022, the Russian operations and loss on disposition have been presented as discontinued operations.

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month period ended September 30,	
	2022	2021	**2022**	2021
Revenue	**-**	3,209	**7,443**	6,841
Expenses	**-**	(2,586)	**(5,781)**	(6,757)
	-	623	**1,662**	84
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	**-**	-	**(10,561)**	-
Loss on disposition of Phoenix TSR	**-**	-	**(3,496)**	-
Impairment and other write-offs	**-**	-	**(1,967)**	-
Loss from discontinued operations	**-**	623	**(14,362)**	84
Income tax from discontinued operations	**-**	-	**(196)**	-
Loss from discontinued operations, net of taxes	**-**	623	**(14,558)**	84

Investing Activities

PHX Energy used net cash in investing activities of $12.8 million in the third quarter of 2022 compared to $11.5 million in the 2021-quarter. In the third quarter of 2022, the Corporation received proceeds of $6.3 million (2021 - $0.6 million) from the disposition of drilling equipment, primarily related to the involuntary disposal of drilling equipment in well bores. Additionally, the Corporation spent $18.6 million on capital expenditures in the third quarter of 2022 (2021 - $6.8 million). These expenditures included:

- $8.6 million downhole performance drilling motors,
- $8.9 million in MWD systems and spare components and RSS; and
- $1.1 million in machinery and equipment and other assets.

The capital expenditure program undertaken in the period was primarily financed from cash flows from operations and its credit facilities when required. Of the total capital expenditures in the 2022-quarter, $10.2 million was used to grow the Corporation's fleet of drilling equipment and the remaining $8.4 million was used to maintain the current fleet of drilling and other equipment.

During the three-month period ended September 30, 2022, the Corporation acquired intangible assets in the amount of $0.1 million (2021 - $nil).

The change in non-cash working capital balances of $0.4 million (use of cash) for the three-month period ended September 30, 2022, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $2.4 million (use of cash) for the three-month period ended September 30, 2021.

Financing Activities

For the three-month period ended September 30, 2022, cash used in financing activities was $0.3 million as compared to $6.5 million used in financing activities in the same 2021-period. In the 2022-period:

- Dividends of $3.8 million were paid to shareholders;
- payments of $0.7 million were made towards lease liabilities;
- 157,433 common shares were issued from treasury for proceeds of $0.4 million upon the exercise of share options; and
- $3.9 million net in drawings were taken against the syndicated facility.

Capital Resources

As of September 30, 2022, the Corporation had CAD $24 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $27 million. As at September 30, 2022, the Corporation had approximately CAD $41 million and USD $15 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at September 30, 2022, 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, debt and equity. On April 14, 2022, the Corporation announced an increase to its 2022 capital expenditure program from $47.7 million to $85 million. The increase is primarily dedicated to growing the Velocity, RSS and Atlas fleets to meet increased demand anticipated in late 2022 and 2023.

In order to continue the advantageous strategy of placing advanced orders in a robust industry environment and continue to mitigate the supply chain issues expected to continue into 2023, the Board has approved a preliminary 2023 capital expenditure program of $50 million. Of the 2023 capital expenditures, $25 million is anticipated to be spent on growing PHX Energy's fleet of drilling and other equipment and $25 million on maintenance of the fleet of drilling and other equipment.

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

As at September 30, 2022, the Corporation has commitments to purchase drilling and other equipment for $46.7 million. Majority of the delivery is expected to occur within the last quarter of 2022 with the remainder expected to be delivered in the first quarter of 2023. The Corporation expects to see the benefit of these technologies by the end of the first quarter of 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; Casper, Wyoming; Midland, Texas; 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 operates in 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 1400, 250 2nd Street SW
Calgary, Alberta T2P 0C1
Tel: 403-543-4466 Fax: 403-543-4485 www.phxtech.com

Condensed Consolidated Statements of Financial Position

(unaudited)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,023,659	$ 24,828,830
Trade and other receivables	112,630,127	76,478,093
Inventories	58,336,924	36,691,141
Prepaid expenses	2,599,453	2,814,272
Current tax assets	359,728	346,554
Total current assets	200,949,891	141,158,890
Non-current assets:		
Drilling and other long-term assets	107,152,534	76,363,001
Right-of-use assets	25,038,106	25,708,177
Intangible assets	15,662,594	16,137,024
Investments	3,000,500	3,000,500
Deferred tax assets	297,853	126,133
Other long-term assets	1,051,628	-
Total non-current assets	152,203,215	121,334,835
Total assets	$ 353,153,106	$ 262,493,725
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	$ 103,369,941	$ 77,571,887
Lease liability	2,619,881	3,232,503
Dividends payable	5,078,134	2,482,060
Current tax liabilities	653,891	-
Total current liabilities	111,721,847	83,286,450
Non-current liabilities:		
Lease liability	32,777,446	32,638,819
Loans and borrowings	24,000,000	-
Deferred tax liability	16,643,504	9,346,426
Other	2,993,251	2,789,786
Total non-current liabilities	76,414,201	44,775,031
Equity:		
Share capital	250,370,939	235,463,414
Contributed surplus	7,110,486	9,462,091
Deficit	(124,817,481)	(121,721,790)
Accumulated other comprehensive income	32,353,114	11,228,529
Total equity	165,017,058	134,432,244
Total liabilities and equity	$ 353,153,106	$ 262,493,725

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Revenue	**$ 142,418,326**	$ 93,338,300	**$ 377,986,582**	$ 237,650,245
Direct costs	**111,734,015**	74,546,385	**304,200,177**	188,499,149
Gross profit	**30,684,311**	18,791,915	**73,786,405**	49,151,096
Expenses:				
Selling, general and administrative expenses	**15,589,015**	12,326,017	**49,536,435**	31,937,842
Research and development expenses	**909,169**	540,466	**2,538,935**	1,725,014
Finance expense	**499,461**	114,309	**873,445**	379,541
Finance expense lease liability	**498,239**	526,721	**1,506,640**	1,609,403
Other income	**(3,953,620)**	(52,249)	**(11,031,501)**	(4,557,847)
	13,542,264	13,455,264	**43,423,954**	31,093,953
Earnings from continuing operations before income taxes	**17,142,047**	5,336,651	**30,362,451**	18,057,143
Provision for (recovery of) income taxes				
Current	**625,922**	(239,049)	**396,650**	(218,596)
Deferred	**3,041,401**	1,369,882	**5,987,492**	4,288,530
	3,667,323	1,130,833	**6,384,142**	4,069,934
Earnings from continuing operations	**13,474,724**	4,205,818	**23,978,309**	13,987,209
Discontinued operations				
Net loss from discontinued operations, net of taxes	**-**	622,969	**(14,558,032)**	85,476
Net earnings	**13,474,724**	4,828,787	**9,420,277**	14,072,685
Other comprehensive income				
Foreign currency translation	**8,739,048**	2,659,311	**10,563,631**	490,323
Reclassification of foreign currency translation loss on disposition	**-**	-	**10,560,954**	-
Total comprehensive income for the period	**$ 22,213,772**	$ 7,488,098	**$ 30,544,862**	$ 14,563,008
Earnings per share – basic				
Continuing operations	**$ 0.27**	$ 0.09	**$ 0.48**	$ 0.28
Discontinued operations	**$ -**	$ 0.01	**$ (0.29)**	$ -
Net earnings	**$ 0.27**	$ 0.10	**$ 0.19**	$ 0.28
Earnings per share – diluted				
Continuing operations	**$ 0.27**	$ 0.08	**$ 0.48**	$ 0.27
Discontinued operations	**$ -**	$ 0.01	**$ (0.29)**	$ -
Net earnings	**$ 0.27**	$ 0.09	**$ 0.18**	$ 0.27

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Cash flows from operating activities:				
Earnings from continuing operations	**$ 13,474,724**	$ 4,205,818	**$ 23,978,309**	$ 13,987,209
Adjustments for:				
Depreciation and amortization	**8,143,257**	6,452,951	**23,242,730**	18,962,111
Depreciation and amortization right-of-use asset	**744,876**	838,164	**2,429,603**	2,499,517
Provision for income taxes	**3,667,323**	1,130,833	**6,384,142**	4,069,934
Unrealized foreign exchange loss (gain)	**155,128**	(112,152)	**36,602**	76,664
Net (gain) loss on disposition of drilling equipment	**(4,157,247)**	39,049	**(10,798,870)**	(4,263,147)
Equity-settled share-based payments	**133,034**	116,230	**393,042**	334,548
Finance expense	**499,461**	114,309	**873,445**	379,541
Recovery of bad debts	**(1,501)**	(14,442)	**(1,501)**	(279,065)
Provision for inventory obsolescence	**51,868**	565,770	**876,524**	1,671,651
Interest paid	**(413,530)**	(48,308)	**(591,701)**	(155,144)
Income taxes received	**9,461**	227,073	**228,591**	206,757
Change in non-cash working capital	**(679,450)**	8,785,575	**(17,683,437)**	(4,910,344)
Continuing operations	**21,627,404**	22,300,870	**29,367,479**	32,580,232
Discontinued operations		(336,193)	**(1,254,859)**	(926,342)
Net cash from operating activities	**21,627,404**	21,964,677	**28,112,620**	31,653,890
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**6,274,079**	578,521	**15,453,628**	7,104,335
Acquisition of drilling and other equipment	**(18,631,230)**	(6,751,036)	**(52,051,148)**	(24,159,193)
Acquisition of intangible assets	**(74,189)**	-	**(692,394)**	-
Acquisition of private equity investments	**-**	(3,000,500)	**-**	(3,000,500)
Change in non-cash working capital	**(370,923)**	(2,354,966)	**339,967**	2,360,763
Continuing operations	**(12,802,263)**	(11,527,981)	**(36,949,947)**	(17,694,595)
Discontinued operations	**-**	(2,728)	**(68,068)**	11,127
Net cash used in investing activities	**(12,802,263)**	(11,530,709)	**(37,018,015)**	(17,683,468)
Cash flows from financing activities:				
Proceeds from loans and borrowings	**3,892,008**	-	**24,000,000**	-
Proceeds from issuance of share capital	**359,032**	579,056	**2,170,885**	974,327
Dividends paid to shareholders	**(3,796,793)**	(1,259,757)	**(10,069,396)**	(3,785,162)
Purchase of shares held in trust	**-**	(2,769,829)	**(3,500,000)**	(6,086,000)
Payments of Lease Liability	**(734,273)**	(832,303)	**(2,466,184)**	(2,438,183)
Repurchase of shares under the NCIB	**-**	(2,260,001)	**-**	(3,464,134)
Continuing operations	**(280,026)**	(6,542,834)	**10,135,305**	(14,799,152)
Discontinued operations	**-**	-	**-**	-
Net cash from (used in) financing activities	**(280,026)**	(6,542,834)	**10,135,305**	(14,799,152)
Net increase (decrease) in cash and cash equivalents	**8,545,115**	3,891,134	**1,229,910**	(828,730)
Cash and cash equivalents, beginning of period	**17,971,334**	21,026,047	**24,828,830**	25,745,911
Effect of movements in exchange rates on cash held	**507,210**	-	**964,919**	-
Cash and cash equivalents, end of period	**$ 27,023,659**	$ 24,917,181	**$ 27,023,659**	$ 24,917,181

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 Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through the ROCS Program, the anticipated continuation of PHX Energy's quarterly dividend program and the amounts of dividends, the projected capital expenditures budget for 2022 and 2023 and how the budget will be allocated and funded, the timeline for delivery of equipment on order, the competitive advantage that will be created by advanced orders in a challenging supply chain environment, the anticipated increase in demand for the Corporation's services and technologies in North America, the anticipated impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto, the anticipated impact of global supply chain disruptions and inflation on the Corporation's operations, results, and the Corporation's planned responses thereto, the potential future settlement of retention and performance awards in common shares that were purchased and held in trust by an independent trustee in the open market.

The above are stated under the headings: "Third Quarter Highlights", "Financial Results" and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Outlook" sections of this Press Release may contains forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this Press Release and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the continuing impact of COVID-19 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 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 Measures

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense, finance expense lease liability, income taxes, depreciation and amortization, impairment losses on drilling and other equipment and goodwill and other write-offs, equity-settled share-based payments, severance payouts relating to the Corporation’s restructuring cost, and unrealized foreign exchange gains or losses, does not have a standardized meaning and is not a financial measure that is recognized under GAAP. However, Management believes that adjusted EBITDA provides supplemental information to net 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 net 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 net earnings to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Net earnings from continuing operations:	**13,475**	4,206	**23,978**	13,987
Add:				
Depreciation and amortization drilling and other equipment	**8,143**	6,453	**23,243**	18,962
Depreciation and amortization right-of-use asset	**745**	838	**2,430**	2,500
Provision for income taxes	**3,667**	1,131	**6,384**	4,070
Finance expense	**499**	114	**873**	380
Finance expense lease liability	**498**	527	**1,507**	1,609
Equity-settled share-based payments	**133**	116	**393**	335
Unrealized foreign exchange (gain) loss	**155**	(112)	**37**	77
Severance	**-**	835	**-**	835
Adjusted EBITDA	**27,315**	14,108	**58,845**	42,755

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.

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

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 non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses funds from operations as an indication of the Corporation's ability to generate funds from its operations before considering changes in working capital balances and interest and taxes paid. Investors should be cautioned, however, that this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. PHX Energy's method of calculating funds from operations may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of cash flows from operating activities to funds from operations:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Cash flows from operating activities	**21,627**	22,301	**29,367**	32,580
Add (deduct):				
Changes in non-cash working capital	**679**	(8,785)	**17,683**	4,910
Interest paid	**414**	48	**592**	155
Income taxes received	**(9)**	(227)	**(229)**	(207)
Funds from operations	**22,711**	13,337	**47,413**	37,438

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.

Free Cash Flow

Free cash flow is defined as funds from operations (as defined above) less maintenance capital expenditures and cash payment on leases and increased by proceeds on disposition. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses free cash flow as an indication of the Corporation's ability to generate funds from its operations to support operations 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 free 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 free cash flow:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Cash flows from operating activities	**21,627**	22,301	**29,367**	32,580
Add (deduct):				
Changes in non-cash working capital	**679**	(8,785)	**17,683**	4,910
Interest paid	**414**	48	**592**	155
Income taxes received	**(9)**	(227)	**(229)**	(207)
Maintenance capital expenditures	**(8,440)**	(3,320)	**(18,846)**	(8,263)
Proceeds on disposition	**6,274**	579	**15,454**	7,104
Cash payment on leases	**(1,233)**	(1,359)	**(3,973)**	(4,048)
Free cash flow	**19,312**	9,237	**40,048**	32,231

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 non-GAAP 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)

		As at:
	September 30, 2022	December 31, 2021
Current assets	**200,950**	141,159
Deduct:		
Current liabilities	**(111,722)**	(83,287)
Working capital	**89,228**	57,872

Net Debt (Net Cash)

Net debt (Net cash) is defined as the Corporation's operating facility and loans and borrowings less cash and cash equivalents. This non-GAAP 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 (net cash):

(Stated in thousands of dollars)

		As at:
	September 30, 2022	December 31, 2021
Loans and borrowings	**24,000**	-
Deduct:		
Cash and cash equivalents	**(27,024)**	(24,829)
Net debt (Net cash)	**(3,024)**	(24,829)

Gross Profit as a Percentage of Revenue Excluding Depreciation & Amortization and Government Grants

Gross profit as a percentage of revenue excluding depreciation & amortization and government grants is defined as the Corporation's gross profit excluding depreciation and amortization and government grants divided by revenue and is used to assess operational profitability. This non-GAAP measure 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, government grants and gross profit to gross profit as a percentage of revenue excluding depreciation and amortization and government grants:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Revenue	**142,418**	93,338	**377,987**	237,650
Direct costs	**111,734**	74,546	**304,200**	188,499
Gross profit	**30,684**	18,792	**73,787**	49,151
Depreciation & amortization drilling and other equipment (included in direct costs)	**8,143**	6,453	**23,243**	18,962
Depreciation & amortization right-of-use asset (included in direct costs)	**745**	838	**2,430**	2,500
Government grants (included in direct costs)	**(75)**	-	**(75)**	(6,637)
	39,497	26,083	**99,385**	63,976
Gross profit as a percentage of revenue excluding depreciation & amortization and government grants	**28%**	28%	**26%**	27%

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 measure does not have a standardized meaning and is not a financial measure recognized under GAAP. PHX Energy's method of calculating SG&A costs excluding share-based compensation as a percentage of revenue may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
SG&A Costs	**15,589**	12,326	**49,536**	31,938
Deduct:				
Share-based compensation (included in SG&A)	**5,311**	3,496	**18,023**	10,283
	10,278	8,830	**31,513**	21,655
Revenue	**142,418**	93,338	**377,987**	237,650
SG&A costs excluding share-based compensation as a percentage of revenue	**7%**	9%	**8%**	9%

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 as quantified in the respective periods divided by revenue.