PHX
ENERGY SERVICES CORP.

PRESS RELEASE
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TSX – PHX
Calgary, Alberta

PHX Energy Announces Strong Third Quarter Results and Increased 2021 Capital Expenditure Program

Financial Results

For the three-month period ended September 30, 2021, PHX Energy Services Corp. (the "Corporation" or "PHX Energy") generated strong third quarter revenue from continuing operations as demand for the Corporation's premium technologies continued to strengthen and the industry activity continued to recover. PHX Energy recognized revenue of $93.3 million (2020 - $37 million) and PHX Energy's consolidated activity levels for the third quarter increased by 133 percent to 5,753 days (2020 - 2,467 days). For the three-month period September 30, 2021, earnings from continuing operations were $4.2 million in the 2021-quarter (2020 - $1.6 million) and adjusted EBITDA from continuing operations was $14.1 million (2020 - $6.8 million) (see "Non-GAAP Measures"). The 2021 adjusted EBITDA is double the adjusted EBITDA in the 2020-quarter, and the Corporation achieved this level of adjusted EBITDA despite higher cash-settled share-based payments that amounted to $3.4 million (2020 - $0.9 million). Adjusted EBITDA from continuing operations, excluding the impact of cash-settled share-based payments, would be $17.5 million in the 2021 three-month period (2020 - $7.7 million). Cash-settled share-based payments rose primarily due to increases in the Corporation's share price. Adjusted EBITDA in the third quarter of 2020 also included $1.3 million in government grants and a bad debt recovery of $0.9 million.

The Corporation's US segment reported its second highest third quarter revenue in the Corporation's history which represented 79 percent (2020 – 82 percent) of its third quarter consolidated revenue. The Corporation's US revenue increased 144 percent quarter-over-quarter, with the US division generating $74 million in the 2021-quarter as compared to $30.3 million in the 2020-quarter. In comparison, the US rig count during the third quarter of 2021 increased by 100 percent to 475 average rigs running per day as compared to the 238 rigs per day in the third quarter of 2020 (Source: Baker Hughes). The improvement in the US division's activity and revenue was mainly attributable to ongoing demand for the Corporation's premium technologies and high-quality services and this allowed the division to protect the market share gains it had made in prior quarters as industry activity grew.

In Canada, the industry and PHX Energy's activity levels also improved significantly quarter-over-quarter, with both seeing quadruple the number of wells drilled. The Corporation drilled 254 wells in the third quarter of 2021 (2020 – 63), a 303 percent increase, and the industry drilled 1,358 wells in the third quarter of 2021 (2020 – 335), a 305 percent improvement (Source: Daily Oil Bulletin). The Canadian division's revenue growth was consistent with the aforementioned activity growth and during the third quarter of 2021 the Canadian segment's revenue was $19.3 million (2020 - $6.7 million).

The Corporation continued to maintain a strong balance sheet position and reported a cash balance of $24.9 million with no bank loans outstanding as at September 30, 2021. As a result of earnings growth, for the three-month period ended September 30, 2021, the Corporation's free cash flow from continuing operations increased to $8.7 million as compared to $2.4 million in the corresponding 2020-quarter (see "Non-GAAP Measures").

Dividends

In light of the Corporation's balance sheet strength and improving adjusted EBITDA margins and net earnings, in August of 2021 the Board approved an increase to the Corporation's quarterly dividend from $0.025 per common share to $0.05 per common share effective for the dividend payable on October 15, 2021.

On September 15, 2021, PHX Energy declared a cash dividend of $0.05 per common share and $2.5 million was paid on October 15, 2021 to shareholders of record at the close of business on September 30, 2021.

Responding to COVID-19

Despite oil prices recovering to pre-pandemic levels, the Corporation continued to monitor, evaluate and adjust its business costs in-line with drilling activity in North America and will continue to implement changes as required. In addition, the Corporation will continue to review various government assistance programs available for businesses in North America. For the three-month period ended September 30, 2021 the Corporation recognized government grants of $0.1 million (2020 - $1.3 million) in the Canadian division.

PHX Energy has and will continue to diligently preserve a solid financial position and retain financial flexibility through substantial liquidity on its credit facilities. As at September 30, 2021, the Corporation has working capital of $54.9 million and approximately CAD $65 million and USD $15 million available from its credit facilities. 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", "Critical Accounting Estimates" and "Outlook".

Assets Held for Sale and Discontinued Operations

On December 10, 2020, the Corporation entered into a preliminary purchase and sale agreement with Well Tech Services Ltd. to sell the Russian division, operating under the entity Phoenix TSR LLC ("Phoenix TSR"), for 240 million Russian Rubles. The purchase and sale agreement was amended on August 31, 2021 to extend the transaction completion deadline to the first quarter of 2022. As part of the deadline extension, Well Tech Services Ltd., agreed to pay the Corporation two non-refundable deposits totaling 40 million Russian Rubles in October and November 2021 to be applied to the final purchase price.

Management expects the sale to be completed in the first quarter of 2022. Accordingly, for the nine-month period ended September 30, 2021, net assets with a carrying value of $4.4 million owned by Phoenix TSR have been classified as assets held for sale and liabilities directly associated with assets held for sale and the financial results of Phoenix TSR have been presented as discontinued operations. The decision to sell the division is not anticipated to have a significant impact on the continuing operations of the Corporation. For the three and nine-month periods ended September 30, 2021, the Russian division generated adjusted EBITDA of $0.6 million and $0.1 million, respectively (2020 - $0.6 million and $0.8 million, respectively).

Capital Spending

During the third quarter of 2021, the Corporation spent $6.8 million in capital expenditures (2020 - $1.8 million), which were primarily used to expand its fleet of premium technologies, specifically Velocity Real-Time System ("Velocity"), PowerDrive Orbit Rotary Steerable System ("RSS"), and Atlas High Performance Motors ("Atlas") to meet the growing demand for its drilling equipment. Of the total capital expenditures in the 2021-quarter $3.5 million was spent on growing the Corporation's fleet of drilling equipment and the remaining $3.3 million was spent on maintenance of the current fleet of drilling and other equipment. For the nine-month period ended September 30, 2021, the Corporation spent $24.2 million in capital expenditures (2020 - $22.1 million). Of the total capital expenditures in the 2021-period, $15.9 million was spent on growing the Corporation's fleet of drilling equipment and the remaining $8.3 million was spent on maintenance. The Corporation funded capital spending through funds from operations and cash and cash equivalents on hand.

On November 3, 2021 PHX Energy's Board of Directors (the "Board") approved a second increase to the 2021 capital expenditure program from $35 million to $43 million. This increase is in addition to the preliminary 2022 budget of $30 million approved by the Board on August 4, 2021 and is primarily dedicated to growing and maintaining the Velocity, RSS and Atlas fleets to meet increased demand anticipated in the last quarter of 2021 and through 2022.

As at September 30, 2021, the Corporation has commitments to purchase drilling and other equipment for $37.9 million. Of the purchases, $14.1 million are expected to be delivered by the end of the fourth quarter with the remaining $23.8 million anticipated to be delivered by the end of the first quarter of 2022. In light of global supply chain disruptions, the Corporation has been proactive in securing machinery and drilling equipment in order to capitalize on current and foreseeable market conditions. Commitments include $15.1 million for Velocity systems, $21.9 million for performance drilling motors primarily relating to Atlas, and $0.9 million for other machinery and equipment. Of the $37.9 million capital expenditure commitments, $24.2 million is anticipated to be spent on growing the Corporation's fleet of high-performance equipment.

The Corporation currently possesses approximately 442 Atlas motors, comprised of various configurations including its 5.13", 5.76", 7.12", 7.25", 8" and 9" Atlas motors, 93 Velocity systems, and 33 PowerDrive Orbit RSS, the largest independent fleet in North America.

Technology Partnership

In the first quarter of 2021, the Corporation announced it had entered into a technology partnership with National Energy Services Reunited Corp. ("NESR"). Pursuant to the partnership, PHX Energy will provide its premium downhole technology for use in NESR's directional drilling operations in the Middle East and North Africa ("MENA") regions. Access to NESR's international markets is anticipated to provide opportunities to further extend the global reach and reputation of the Corporation's high-performance technologies and equipment. Velocity was certified as part of the qualification process in the second quarter and in the third quarter the Corporation successfully obtained certification for Atlas as well. With the successful qualification of both state-of-the-art technologies, NESR is now eligible to participate in the tendering process with Atlas and Velocity. Based on preliminary drilling results during the qualification process, the Corporation is optimistic that the tenders will be successful and through its partnership will be an active supplier in the region. It is anticipated that the tender process will take some time and the Corporation is expecting to increase activity levels in the region in the 2022-year.

Shares Held in Trust

In the second quarter of 2021, the Corporation amended its cash-settled share-based compensation program to permit the settlement of retention and performance awards with, at the option of the Corporation, either cash or common shares acquired by an independent trustee in the open market from time to time for such purposes. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired by the independent trustee in the open market are held in trust for the potential settlement of retention and performance award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlements. For the three-month period ended September 30, 2021, the trustee purchased 589,741 common shares for a total cost of $2.8 million. As at September 30, 2021, 1,376,280 common shares are held in trust.

Investments

On July 20, 2021, PHX Energy announced a strategic investment of $3 million in a geothermal power developer, DEEP Earth Energy Production Corp. ("DEEP"). DEEP is currently developing a geothermal power facility in southern Saskatchewan which stands to become the first major geothermal power facility in Canada. The investment in DEEP provides an opportunity for the Corporation to diversify the business as management continues to focus on strategies to ensure long term sustainable growth for the business. PHX Energy's investment in DEEP includes an option for an additional $3.5 million equity upon the exercise of warrants held by the Corporation. Exercise of the warrants, which expires in three years, is at the discretion of the Corporation.

Normal Course Issuer Bid

During the third quarter of 2021, the Toronto Stock Exchange ("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 3,679,797 common shares, representing 10 percent of the Corporation's public float of common shares as at August 6, 2021. The NCIB commenced on August 16, 2021 and will terminate on August 15, 2022. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the current NCIB, in the three-month period ended September 30, 2021, 500,000 common shares were purchased by the Corporation and cancelled.

Financial Highlights

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
Operating Results – Continuing Operations	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**93,338**	37,043	152	**237,650**	178,930	33
Earnings (loss)	**4,206**	(1,590)	n.m.	**13,987**	(8,953)	n.m.
Earnings (loss) per share – diluted	**0.08**	(0.03)	n.m.	**0.27**	(0.17)	n.m.
Adjusted EBITDA (1)	**14,108**	6,823	107	**42,755**	30,669	39
Adjusted EBITDA per share – diluted (1)	**0.28**	0.13	115	**0.83**	0.58	43
Adjusted EBITDA as a percentage of revenue (1)	**15%**	18%		**18%**	17%	
Cash Flow – Continuing Operations						
Cash flows from operating activities	**22,301**	9,874	126	**32,580**	58,393	(44)
Funds from operations (1)	**13,337**	5,375	148	**37,438**	28,032	34
Funds from operations per share – diluted (1)	**0.26**	0.10	160	**0.72**	0.53	36
Dividends per share paid	**0.025**	-	n.m.	**0.075**	-	n.m.
Dividends paid	**1,260**	-	n.m.	**3,785**	-	n.m.
Capital expenditures	**6,751**	1,816	n.m.	**24,159**	22,078	9
Free cash flow (1)	**8,658**	2,439	n.m.	**25,127**	18,562	35
Financial Position (unaudited)				**Sep 30, '21**	Dec 31, '20	
Working capital				**54,859**	55,524	(1)
Net debt (1) (2)				**(24,917)**	(25,746)	(3)
Shareholders' equity				**133,329**	132,033	1
Common shares outstanding				**48,732,719**	50,625,920	(4)

n.m. – not meaningful

(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 that follows the Outlook section of this press release

(2) As at September 30, 2021, the Corporation had no bank loans and borrowing outstanding and was in a cash positive position.

Non-GAAP Measures

PHX Energy uses throughout this press release 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, debt to covenant EBITDA, 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 Outlook section of this press release for applicable definitions and reconciliations.

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 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 on the Corporation's operations, results, and the Corporation's planned responses thereto; the anticipated increase in demand for the Corporations services and technologies in North America, the anticipated closing and terms of the transaction to sell the Russian division, the opportunities that will be created by the NESR partnership, the potential award of tenders in the region and the ramp up of activity in 2022, the anticipated continuation of PHX Energy's quarterly dividend program and the amounts of dividends, 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 anticipation of resumed activity in Albania, and the timeline for delivery of equipment on order, the projected capital expenditures budget for 2021 and 2022 and how these budgets will be allocated and funded.

The above are stated under the headings: "Dividends", "Responding to COVID-19", "Assets Held for Sale and Discontinued Operations", "Technology Partnership", "Capital Spending", "Shares Held in Trust", "Segmented Information", "Financing Activities" and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Responding to COVID-19", and "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 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, 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 on the global economy, specifically trade, manufacturing, supply chain 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; 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; 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.

Revenue

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
Revenue	**93,338**	37,043	152	**237,650**	178,930	33

For the three-month period ended September 30, 2021, PHX Energy recorded the highest level of consolidated third quarter revenue since the third quarter of 2014. The Corporation's consolidated revenue from continuing operations increased by 152 percent to $93.3 million in the 2021-quarter compared to $37 million in the 2020-quarter. This was mainly driven by the US divisions' volume of operating days and its improved average revenue per day. For the three-month period ended September 30, 2021, the average consolidated revenue per day, excluding the US motor rental division, was $15,567 in comparison to $14,467 in the same 2020-quarter, an 8 percent increase. Higher revenue per day was mainly due to the greater capacity of PHX Energy's high-performance technologies, and improved industry conditions, including oil prices return to pre-pandemic levels. For the quarter ended September 30, 2021, consolidated operating days increased 133 percent to 5,753 days from 2,467 days in the corresponding 2020-quarter. The higher operating days are primarily due to the high demand for PHX Energy's drilling technologies accelerated by the rebound in rig activities in both the US and Canadian segments. US revenue made up 79 percent of total consolidated revenue for the third quarter of 2021 (2020 – 82 percent).

During the third quarter of 2021, commodity prices continued to improve and drive industry activity. West Texas Intermediate ("WTI") spot crude oil price was 76 percent higher than in the 2020-quarter averaging USD $72/bbl (2020 - USD $41/bbl) and the Western Canadian Select ("WCS") oil prices showed an 84 percent improvement averaging USD $59/bbl (2020 - USD $32/bbl). The improvement in oil pricing resulted in substantial increases in industry activity, with the US industry operating at an average of 496 rigs per day in the third quarter of 2021, a 95 percent increase quarter-over-quarter, and the Canada industry operating at an average of 151 rigs per day in the third quarter 2021, a 221 percent improvement quarter-over-quarter (Sources: BNN Bloomberg and Baker Hughes).

For the nine-month period ended September 30, 2021, the Corporation's consolidated revenue increased by 33 percent to $237.7 million as compared to the $178.9 million reported in the same 2020-period. Consolidated operating days improved period-over-period with 15,240 days realized in 2021 compared to 11,720 in the 2020-period, a 30 percent increase. The average consolidated revenue per day, excluding the motor rental division in the US, for the 2021 nine-month period was $14,970, an increase of 3 percent compared to the average of $14,593 in the 2020-period. Improvements in revenue for the nine-month period ended September 30, 2021 were primarily attributable to the greater capacity of high performance technologies and higher activity levels in both the US and Canadian divisions. The US segment revenue as a percentage of total consolidated revenue remained consistent at approximately 81 percent of the total consolidated revenue for the nine-month period ended September 30, 2021 (2020 – 80 percent).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
Direct costs	**74,546**	32,831	127	**188,499**	154,574	22
Gross profit as a percentage of revenue	**20%**	11%		**21%**	14%	
Depreciation & amortization drilling and other equipment (included in direct costs)	**6,453**	6,615	(2)	**18,962**	21,522	(12)
Depreciation & amortization right-of-use asset (included in direct costs)	**838**	861	(3)	**2,500**	2,717	(8)
Gross profit as percentage of revenue excluding depreciation & amortization	**28%**	32%		**30%**	27%	

Direct costs are comprised of field and shop expenses and include depreciation and amortization of the Corporation's equipment and right-of-use assets. For the three-month period ended September 30, 2021, direct costs increased by 127 percent to $74.5 million from $32.8 million in the comparable 2020-period. For the nine-month period ended September 30, 2021, direct costs increased by 22 percent to $188.5 million from $154.6 million in the corresponding 2020-period. The increase in direct costs for both periods was primarily associated with increased activity levels and inflationary pressures resulting in higher personnel costs and equipment repair expenses during the 2021-periods.

The reduction in the depreciation and amortization expenses for the three and nine-month periods ended September 30, 2021 was mainly the result of PHX Energy's lower level of capital spending relative to the quarters before the COVID-19 pandemic and more assets being fully depreciated.

For the three-month period ended September 30, 2021, gross profit as a percent of revenue, excluding depreciation and amortization, decreased to 28 percent from 32 percent. The decrease in gross profit percentage is primarily due to the tapering off of government grants, higher personnel costs, higher equipment repair costs impacted by inflation and supply chain disruptions, and a greater number of equipment rentals associated with higher activity levels. For the nine-month period ended September 30, 2021, gross profit as a percent of revenue, excluding depreciation and amortization, was 30 percent in comparison to 27 percent in the 2020-period. The improved profitability in the nine-month period is primarily due to increased activity and revenue per day in the US segment in addition to government grants received in the first half of 2021.

The Corporation did not recognize any governments grants in direct costs in the third quarter of 2021 (2020 - $0.9 million). For the 2021 nine-month period, the Corporation reported $2 million (2020 - $1.4 million) in the Canadian Emergency Wage Subsidy ("CEWS") and the Canadian Emergency Rent Subsidy ("CERS") support programs and USD $3.7 million (2020 – $nil) from the Coronavirus Aid, Relief, and Economic Security Act ("CARES") program. Gross profit as a percentage of revenue excluding depreciation, amortization and government grants for the three and nine-month periods ended 2021 was 28 percent and 26 percent, respectively (2020 - 29 percent and 26 percent, respectively).

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
SG&A costs	**12,326**	5,794	113	**31,938**	19,069	67
Cash-settled share-based payments (included in SG&A costs)	**3,380**	883	n.m.	**9,948**	(1,144)	n.m.
Equity-settled share-based payments (included in SG&A costs)	**116**	66	76	**335**	214	57
SG&A costs excluding equity and cash-settled share-based payments as a percentage of revenue	**9%**	13%		**9%**	11%	

n.m. – not meaningful

For the three and nine-month periods ended September 30, 2021, SG&A costs were $12.3 million and $31.9 million, respectively, as compared to $5.8 million and $19.1 million in the corresponding 2020-periods. Increased SG&A costs in both periods was mainly attributable to compensation expenses related to cash-settled share-based awards and higher personnel costs associated with increased drilling activity. The increase in SG&A costs in the third quarter of 2021 was marginally offset by $0.1 million in CERS government grants (2020 - $0.5 million in CEWS and CERS government grants). For the nine-month period ended September 30, 2021, the Corporation reported $1.4 million (2020 - $0.8 million) of CEWS and CERS assistance and USD $0.4 million (2020 – $nil) of CARES as an offset to SG&A costs.

Cash-settled share-based payments relate to the Corporation's Retention Award Plan and are measured at fair value. For the three-month period ended September 30, 2021, cash-settled share-based payments increased to $3.4 million from $0.9 million in the 2020-quarter. For the nine-month period ended September 30, 2021, cash-settled share-based payments increased to $9.9 million from a recovery of $1.1 million in the same 2020-period. The increase in cash-settled share-based payments expense in the respective periods is mainly due to the increase in the Corporation's share price period-over-period.

Equity-settled share-based payments relate to the amortization of the fair values of issued options by the Corporation using the Black-Scholes model. For the three and nine-month periods ended September 30, 2021, equity-settled share-based payments increased 76 percent and 57 percent, respectively, due to the higher fair value of the 2021 options granted compared to the 2018 to 2020 options that vested during the respective periods.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
Research & development expense	**540**	216	150	**1,725**	1,796	(4)

Research and development ("R&D") expenditures for the three and nine-month periods ended September 30, 2021 were $0.5 million (2020 - $0.2 million) and $1.7 million (2020 - $1.8 million), respectively. With oil prices and revenue returning to pre-pandemic levels, R&D costs have gradually increased over the course of 2021 to support initiatives aimed at continually improving the reliability and efficiency of the Corporation's high-performance technologies.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
Finance expense	**114**	128	(11)	**380**	643	(41)
Finance expense lease liability	**527**	573	(8)	**1,609**	1,799	(11)

Finance expense mainly relates to interest charges on the Corporation's long-term and short-term bank facilities. With all loans and borrowings paid down in the second quarter of 2020, finance charges for the three-month periods ended September 30, 2021 and 2020, which comprised primarily of standby charges, remained consistent at $0.1 million. For the nine-month period ended September 30, 2021 finance expense decreased 41 percent to $0.4 million from $0.6 million. Since the second quarter of 2020, the Corporation has solely funded its operating, investing, and financing activities with funds from operations and cash and cash equivalents.

Finance expense lease liability relates to interest expenses incurred on lease liabilities. For the three and nine-month periods ended September 30, 2021, finance expense lease liability decreased to $0.5 million and $1.6 million, respectively (2020 - $0.6 million and $1.8 million, respectively).

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	**2021**	2020
Net (gain) loss on disposition of drilling equipment	**39**	(125)	**(4,263)**	(2,458)
Foreign exchange (gains) losses	**(77)**	60	**(16)**	(172)
Provision for (Recovery of) bad debts	**(14)**	(909)	**(279)**	1,768
Other income	**(52)**	(974)	**(4,558)**	(862)

Other income in the nine-month period ended September 30, 2021 is primarily comprised of gains on disposition of drilling equipment that typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. 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. For the three-month period ended September 30, 2021, the Corporation incurred a net loss on disposition of drilling equipment of $39 thousand (2020 – net gain of $0.1 million) as a result of minimal occurrence of downhole equipment losses in the quarter. For the nine-month period ended September 30, 2021, the Corporation recognized a net gain on disposition of drilling equipment of $4.3 million (2020 - $2.5 million). Over the course of 2021, the Corporation had a higher occurrence of downhole equipment losses in the first half of the year resulting in a higher net gain on disposition of drilling equipment.

Foreign exchange gains and losses relate to unrealized and realized exchange fluctuations in the period. For the three and nine-month periods ended September 30, 2021, the Corporation recognized foreign exchange gains of $0.1 million and $16 thousand, respectively, as compared to foreign exchange losses of $0.1 million and foreign exchange gains of $0.2 million in the respective 2020-periods. Gains in the 2021-periods primarily relate to the revaluation of CAD-denominated intercompany receivable in the US segment.

For the three and nine-month periods ended September 30, 2021, the Corporation reported a bad debt recovery of $14 thousand and $0.3 million, respectively (2020 - $0.9 million recovery and $1.8 million expense, respectively), which relates mainly to US receivable accounts recovered in 2021.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	**2021**	2020
Provision for income taxes	**1,131**	66	**4,070**	134
Effective tax rates	**21%**	n.m.	**23%**	n.m.

n.m. – not meaningful

For the three and nine-month periods ended September 30, 2021, the Corporation recognized a provision for income taxes of $1.1 million (2020 - $0.1 million) and $4.1 million (2020 - $0.1 million), respectively. Higher provisions in both 2021-periods were mainly a result of improved profitability particularly in the US jurisdictions. Deferred taxes in the 2021 and 2020-periods were impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdictions.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
Revenue	**19,322**	6,706	188	**45,018**	35,856	26
Reportable segment profit (loss) before tax	**2,258**	(328)	n.m.	**4,807**	95	n.m.

n.m. – not meaningful

For the three month-period ended September 30, 2021, PHX Energy's Canadian segment's revenue was $19.3 million which was almost triple the $6.7 million in the same 2020-quarter. The Canadian segment benefited from significantly improved volumes in the 2021-quarter, as operating days in the third quarter rose to 2,128 from 721 in the 2020-quarter. The industry's days did increase at a slightly greater rate than the Canadian division's quarter-over-quarter, rising from 3,592 days to 13,183 days. Average revenue per day decreased by 7 percent from $9,786 in the third quarter of 2020 to $9,054 in the same 2021-quarter as the effect of COVID-19 pricing concessions introduced in the third quarter of 2020 continue to persist.

During the third quarter of 2021, the Corporation remained active in the Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, and Scallion basins.

For the nine-month period ended September 30, 2021, the Canadian segment's revenue improved 26 percent to $45 million compared to $35.9 million in the corresponding 2020-period. Due to COVID-19 pricing concessions that occurred throughout 2021, average revenue per day in the Canadian segment decreased to $9,005 in the 2021-period as compared to $9,327 in the same 2020-period. However, the reduced average revenue per day was offset by higher activity in the 2021-period as operating days improved 32 percent, with 4,982 operating days recorded versus 3,774 days in the 2020-period. In comparison, the Canadian industry activity for the nine-month periods ended September 30, 2021 reported a 48 percent increase in drilling days in the 2021-period, from 22,110 days to 32,760 days.

Consistent with the increase in revenue, for three and nine-month periods ended September 30, 2021 reportable segment income before tax was $2.3 million and $4.8 million, respectively, compared to $0.3 million loss and $0.1 million, respectively, in the same 2020-periods. The improved margins for both 2021-periods were primarily due to higher activity and lower depreciation, and the support of government grants contributing to the nine-month period margin.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
Revenue	**74,016**	30,337	144	**192,632**	143,074	35
Reportable segment income before tax	**8,760**	678	n.m.	**23,611**	9,835	140

n.m. - not meaningful

The US segment continued its strong recovery in the 2021-period and achieved the second highest third quarter revenue in the Corporation's history, with the highest being achieved in the third quarter of 2014. For the three-month period ended September 30, 2021 revenue grew to $74 million as compared to $30.3 million in the respective 2020-quarter. Revenue gains in the quarter are mainly a result of increased activity and average revenue per day. PHX Energy's US segment operating days rose to 3,626 days, an increase of 108 percent as compared to 1,747 days in the corresponding 2020-quarter. In comparison, the average number of horizontal and directional rigs running per day in the US improved 100 percent quarter-over-quarter from an average of 238 active rigs per day in the 2020-period to an average of 475 active rigs per day in the 2021-period (Source: Baker Hughes). Average revenue per day, excluding the Corporation's US motor rental division, increased by 17 percent to $19,388 in the 2021-quarter (2020 - $16,597). Omitting the impact of foreign exchange, the average revenue per day, excluding the Corporation's US motor rental division, increased 23 percent to USD $15,391 (2020 – USD $12,465).

During the third quarter of 2021, Phoenix USA continued to be active in the Permian, Eagle Ford, SCOOP/STACK, Marcellus, Bakken, and Niobrara basins.

For the nine-month period ended September 30, 2021, US revenue grew to $192.6 million from $143.1 million in the comparable 2020-period, an increase of 35 percent. During the 2021 nine-month period, the US segment saw continued improvements in drilling activity. Operating days rose by 29 percent to 10,258 days from 7,946 days in the same 2020-period. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, actually decreased by 6 percent period-over-period averaging 428 rigs in the 2021 nine-month period as compared to an average of 456 rigs in the comparable 2020-period. The average revenue per day, excluding the Corporation's US motor rental division, improved to $17,867 in the 2021-period from $17,139 in the same 2020-period, an increase of 4 percent. Omitting the impact of foreign exchange, the average revenue per day, excluding the Corporation's US motor rental division, increased 13 percent to USD $14,288 (2020 – USD $12,676).

The growth in the Corporation's operating days in excess of the industry average and the significant improvement in the average revenue per day in both three and nine-month periods ended September 30, 2021 evidences the growing demand for PHX Energy's high-performance technologies and the growing market share that the Corporation is experiencing in the US division. The increase in RSS activity also greatly contributed to the improvement in the average revenue per day in both 2021-periods.

For the three and nine-month periods ended September 30, 2021, the reportable segment income before tax was $8.8 million and $23.6 million, respectively, compared to $0.7 million and $9.8 million in the equivalent 2020-periods. The improved margins in both 2021-periods are mainly attributable to the rise in activity levels, higher average revenue per day and continued prudent cost control. The support from government grants also contributed to the higher segment profit margin for the nine-month period.

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	**2021**	2020	% Change
Revenue	**-**	-	n.m.	**-**	-	n.m.
Reportable segment loss before tax	**(302)**	(1,011)	(70)	**(1,101)**	(1,350)	(18)

n.m. – not meaningful

The International segment information and discussion for the three and nine-month periods ended September 30, 2021 and 2020 only include the operations in the Albanian division. The financial results of the Russian division have been presented as discontinued operations.

In the third quarter of 2021, PHX Energy's operations in Albania remained suspended; however, negotiations have commenced regarding the resumption of operations in Albania. For the three-month period ended September 30, 2021, reportable segment loss before tax was $0.3 million (2020 – $1 million). For the nine-month period ended September 30, 2021, reportable segment loss before tax was $1.1 million (2020 - $1.4 million). In both the 2021 and 2020-periods, expenses incurred were primarily personnel and equipment costs necessary to remain on standby for anticipated resumption of activity.

Discontinued Operations

In the fourth quarter of 2020, management, with approval from the Board, committed to a plan to sell the Russian division operating under the entity, Phoenix TSR. Accordingly, for the nine-month period ended September 30, 2021, net assets with a carrying value of $4.4 million owned by Phoenix TSR have been classified as assets held for sale and liabilities directly associated with assets held for sale and the financial results of Phoenix TSR have been presented as discontinued operations.

For the three-month period ended September 30, 2021, discontinued operations reported revenue of $3.2 million (2020 - $2.7 million) and earnings before taxes of $0.6 million (2020 – $0.1 million). For the nine-month period ended September 30, 2021, discontinued operations reported revenue of $6.8 million (2020 - $10.6 million) and earnings before taxes of $0.1 million (2020 – $0.8 million loss).

Investing Activities

For the three-month period ended September 30, 2021, PHX Energy used $11.5 million net cash in investing activities as compared to $1.3 million in the same 2020-quarter, and received proceeds of $0.6 million relating to the involuntary disposal of drilling equipment in well bores as compared to $0.8 million in the corresponding 2020-quarter.

In the third quarter of 2021, the Corporation spent $6.8 million on capital expenditures compared to $1.8 million in the 2020-quarter. The expenditures in the 2021-quarter were comprised of:

- $3.2 million in MWD systems and spare components;
- $3.4 million in downhole performance drilling motors; and,
- $0.2 million in machinery and equipment and other assets.

The capital expenditure program undertaken in the period was financed from cash flows from operations. Of the total capital expenditures in the 2021-quarter $3.5 million was used to grow the Corporation's fleet of drilling equipment and the remaining $3.3 million was used to maintain the current fleet of drilling and other equipment.

In addition to the acquisition of drilling and other equipment, the Corporation made another strategic investment by acquiring a minor equity position in DEEP Earth Energy Production Corp. ("DEEP"), a geothermal power developer. The investment in DEEP provides a rewarding opportunity for the Corporation to diversify its business to include renewable energy projects and increase the focus on long term sustainable growth.

Financing Activities

The Corporation reported cash flows used in financing activities of $6.5 million in the three-month period ended September 30, 2021 as compared to $3.9 million in the 2020-period. In the 2021-quarter:

- common shares were purchased by an independent trustee in the open market for $2.8 million to be held in trust for the potential future settlement of retention and performance awards;
- 500,000 common shares were repurchased and cancelled for $2.3 million under the NCIB;
- dividends of $1.3 million were paid to shareholders;
- payments of $0.8 million were made towards lease liability; and,
- 218,700 common shares were issued for proceeds of $0.6 million upon the exercise of share options.

Capital Resources

As of September 30, 2021, the Corporation had nothing drawn on its syndicated and operating facilities, and a cash balance of $24.9 million. In addition, the Corporation had CAD $65 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, 2021, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at September 30, 2021**
Debt to covenant EBITDA (1)	<3.0x	**n.m.**
Interest coverage ratio	>3.0x	**92.7**

n.m. – not meaningful

(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 that follows the Outlook section of this press release.

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 November 3, 2021, the Board approved a second increase to the 2021 capital expenditure program from $35 million to $43 million. This increase is in addition to the preliminary 2022 budget of $30 million approved by the Board on August 4, 2021 and is primarily dedicated to growing and maintaining the Velocity, RSS and Atlas fleets to meet increased demand anticipated in the last quarter of 2021 and through 2022.

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 in 2021, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at September 30, 2021, the Corporation has commitments to purchase drilling and other equipment for $37.9 million. Purchases of $14.1 million are expected to be delivered by the end of the fourth quarter with the remaining $23.8 million anticipated to arrive by the end of the first quarter of 2022.

Outlook

In the third quarter, the positive momentum from previous quarters continued and we once again generated strong results from activity growth and increased demand for our services. Our 2021 third quarter revenue and activity levels showed significant improvement over the third quarter of 2020, as last year the third quarter was the lowest point in the downturn. As the industry rebounds, we have continued to generate positive earnings and maintain our strong financial position while increasing our fleet, expanding our operations, and rewarding shareholders.

Looking forward we see the North American rig count continuing to climb upward and stability in commodity prices which we believe will drive ongoing demand for our premium technologies. To protect our market position, we will require greater fleet capacity and we have increased our 2021 capital expenditures to build up our fleet for expected activity in 2022 and to try to reduce the impacts of the strains on our supply chain. Additionally in light of our forecasted activity, our preliminary 2022 capital expenditure program is set to $30 million, as previously announced. In Canada we believe the rig counts will be 20-30 percent higher at the start of 2022 than today and in the US we believe rig counts will continue a steady increase, likely increasing in excess of 20 percent by the fourth quarter of 2022.

A portion of our capital program is dedicated to increasing our Rotary Steerable System ("RSS") fleet, which has increased from 18 systems at the start of 2021 to 33 systems currently, as we were experiencing shortages that required us to rent this technology. Our US division has become a leader in the RSS market, driven by the unique combination of Atlas, Velocity and PowerDrive RSS, and we have captured a significant share of the US RSS market. Increasing our fleet will ensure we are maximizing our margins related to these operations.

Like many other industries our supply chain has been disrupted by the global recession and we are seeing increased costs, shortages and long lead times. We are leveraging our strong financial position to allow us to place orders well in advance and feel this is prudent given the issues we are already experiencing. We anticipate these disruptions could increase further in upcoming quarters and could have an industry-wide impact as activity grows.

The directional drilling market remains highly competitive, and this results in a slower process for pricing increases even for surcharges related to our premium technologies. We have seen some movement in pricing, and we do foresee that as the industry continues to improve, we will see more and be able to recuperate some of the cost inflations we are experiencing.
Additionally, we are pleased to announce that our Atlas and Velocity systems are officially certified to operate in the MENA region, having successfully passed the qualification stage, setting many records on the test wells drilled during this process. This success is a positive step for our technology partnership and our partner is participating in directional tenders, that now include the use of these premium technologies. If these tenders are successful, we foresee drilling to commence in 2022.

We are committed to our ESG strategy and through our investment in DEEP Earth Energy are aiding the development of this renewable energy project while gaining exposure to this emerging market. The same technologies that help oil and gas operators drill wells faster reducing their environmental impact are valuable technologies in drilling non-oil and gas wells. In the third quarter we provided services on our first geothermal well in Canada as well as drilled multiple non-fossil fuel wells such as potash and helium. We believe that there will be greater demand in the future for directional drilling expertise and technology as the renewable energy sector emerges and we are proud to be a part of its development.

We are pleased with our third quarter results and believe the positive momentum we have achieved thus far in 2021 will continue through the fourth quarter and into 2022. Our strategies and successes have set us apart within the energy service sector, building a balance sheet that allows us to reward shareholders and we are proud to be one of a few in our sector that is able to do so through our dividend program. We remain diligent with cost management and continue to use our financial strength to fuel growth, develop our environmental and social initiatives and reward shareholders.

Michael Buker
President
November 3, 2021

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, equity 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,	
	2021	2020	**2021**	2020
Earnings (loss) from continuing operations	**4,206**	(1,590)	**13,987**	(8,953)
Add (deduct):				
Depreciation and amortization drilling and other equipment	**6,453**	6,615	**18,962**	21,522
Depreciation and amortization right-of-use asset	**838**	861	**2,500**	2,717
Provision for income taxes	**1,131**	66	**4,070**	134
Finance expense	**114**	128	**380**	643
Finance expense lease liability	**527**	573	**1,609**	1,799
Equity-settled share-based payments	**116**	66	**335**	214
Unrealized foreign exchange (gain) loss	**(112)**	35	**77**	(62)
Impairment loss	**-**	-	**-**	10,730
Severance	**835**	69	**835**	1,925
Adjusted EBITDA as reported	**14,108**	6,823	**42,755**	30,669

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 on a dilutive basis does not include anti-dilutive options.

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,	
	2021	2020	**2021**	2020
Cash flows from operating activities	**22,301**	9,874	**32,580**	58,393
Add (deduct):				
Changes in non-cash working capital	**(8,785)**	(4,553)	**4,910**	(30,251)
Interest paid	**48**	42	**155**	317
Income taxes paid (received)	**(227)**	12	**(207)**	(427)
Funds from operations	**13,337**	5,375	**37,438**	28,032

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 on a dilutive basis does not include anti-dilutive options.

Free Cash Flow

Free cash flow is defined as funds from operations (as defined above) less maintenance capital expenditures and cash payment on leases. 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 funds from operations to free cash flow:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	**2021**	2020
Funds from operations (1)	**13,337**	5,375	**37,438**	28,032
Deduct:				
Maintenance capital expenditures	**(3,320)**	(1,690)	**(8,263)**	(5,408)
Cash payment on leases	**(1,359)**	(1,246)	**(4,048)**	(4,062)
Free cash flow	**8,658**	2,439	**25,127**	18,562

(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 that follows the Outlook section of this press release.

Debt to Covenant EBITDA Ratio

Debt is represented by loans and borrowings. Covenant EBITDA, for purposes of the calculation of this covenant ratio, is represented by net earnings for a rolling four quarter period, adjusted for finance expense and finance expense lease liability, provision for income taxes, depreciation and amortization, equity-settled share-based payments, impairment losses on goodwill and intangible assets, and IFRS 16 Leases adjustment to restate cash payments to expense, subject to the restrictions provided in the amended credit agreement.

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. Working capital excludes assets held for sale and liabilities associated with assets held for sale. 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.

Net Debt

Net debt is defined as the Corporation's syndicate loans and operating facility 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 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.

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Russia, Albania, and the MENA region through a partnership with NESR.

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 centres 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 Russia, and administrative offices in Nicosia, Cyprus; and Luxembourg City, Luxembourg.

In the fourth quarter of 2020, management, with approval from the Board, committed to a plan to sell the Russian division operating under the entity, Phoenix TSR LLC ("Phoenix TSR").

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

For further information please contact:

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Michael Buker, President; or
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Condensed Consolidated Statements of Financial Position

(unaudited)

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,917,181	$ 25,745,911
Trade and other receivables	66,652,800	43,193,310
Inventories	32,820,803	26,665,902
Prepaid expenses	2,199,152	1,926,336
Current tax assets	232,396	219,400
Assets held for sale	5,639,492	4,405,516
Total current assets	132,461,824	102,156,375
Non-current assets:		
Drilling and other long-term assets	72,772,864	68,933,236
Right-of-use asset	26,596,170	28,956,908
Intangible assets	14,918,797	16,204,673
Investments	3,000,500	-
Deferred tax assets	254,030	289,542
Total non-current assets	117,542,361	114,384,359
Total assets	$ 250,004,185	$ 216,540,734
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	66,125,272	37,562,481
Lease liability	3,332,797	3,398,559
Dividends payable	2,505,450	1,265,648
Liabilities directly associated with assets held for sale	1,254,821	943,063
Total current liabilities	73,218,340	43,169,751
Non-current liabilities:		
Lease liability	33,463,166	35,698,084
Deferred tax liability	9,993,257	5,640,261
Total non-current liabilities	43,456,423	41,338,345
Equity:		
Share capital	239,446,061	247,543,263
Contributed surplus	9,987,729	10,131,786
Deficit	(127,891,678)	(136,939,398)
Accumulated other comprehensive income	22,408,099	21,707,101
Accumulated other comprehensive loss related to assets held for sale	(10,620,789)	(10,410,114)
Total equity	133,329,422	132,032,638
Total liabilities and equity	$ 250,004,185	$ 216,540,734

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	**2021**	2020
Revenue	**$ 93,338,300**	$ 37,043,446	**$ 237,650,245**	$ 178,929,652
Direct costs	**74,546,385**	32,831,212	**188,499,149**	154,574,056
Gross profit	**18,791,915**	4,212,234	**49,151,096**	24,355,596
Expenses:				
Selling, general and administrative expenses	**12,326,017**	5,793,514	**31,937,842**	19,068,759
Research and development expenses	**540,466**	216,019	**1,725,014**	1,795,964
Finance expense	**114,309**	127,518	**379,541**	642,844
Finance expense lease liability	**526,721**	573,301	**1,609,403**	1,799,304
Other income	**(52,249)**	(974,100)	**(4,557,847)**	(861,873)
Impairment loss	**-**	-	**-**	10,729,587
	13,455,264	5,736,252	**31,093,953**	33,174,585
Earnings (loss) from continuing operations before income taxes	**5,336,651**	(1,524,018)	**18,057,143**	(8,818,989)
Provision for (recovery of) income taxes				
Current	**(239,049)**	4,786	**(218,596)**	(741,513)
Deferred	**1,369,882**	61,503	**4,288,530**	875,052
	1,130,833	66,289	**4,069,934**	133,539
Earnings (loss) from continuing operations	**4,205,818**	(1,590,307)	**13,987,209**	(8,952,528)
Discontinued operations				
Net earnings (loss) from discontinued operations, net of taxes	**622,969**	85,130	**85,476**	(772,794)
Net earnings (loss)	**4,828,787**	(1,505,177)	**14,072,685**	(9,725,322)
Other comprehensive income (loss)				
Foreign currency translation	**2,659,311**	(3,889,876)	**490,323**	766,555
Total comprehensive income (loss) for the period	**$ 7,488,098**	$ (5,395,053)	**$ 14,563,008**	$ (8,958,767)
Earnings (loss) per share – basic				
Continuing operations	**$ 0.09**	$ (0.03)	**$ 0.28**	$ (0.17)
Discontinued operations	**$ 0.01**	$ -	**$ -**	$ (0.01)
Net earnings (loss)	**$ 0.10**	$ (0.03)	**$ 0.28**	$ (0.18)
Earnings (loss) per share – diluted				
Continuing operations	**$ 0.08**	$ (0.03)	**$ 0.27**	$ (0.17)
Discontinued operations	**$ 0.01**	$ -	**$ -**	$ (0.01)
Net earnings (loss)	**$ 0.09**	$ (0.03)	**$ 0.27**	$ (0.18)

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	**2021**	2020
Cash flows from operating activities:				
Earnings (loss) from continuing operations	**$ 4,205,818**	$ (1,590,307)	**$ 13,987,209**	$ (8,952,528)
Adjustments for:				
Depreciation and amortization	**6,452,951**	6,615,065	**18,962,111**	21,521,578
Depreciation and amortization right-of-use asset	**838,164**	860,942	**2,499,517**	2,717,224
Provision for income taxes	**1,130,833**	66,289	**4,069,934**	133,539
Unrealized foreign exchange loss (gain)	**(112,152)**	34,993	**76,664**	(61,724)
Net (gain) loss on disposition of drilling equipment	**39,049**	(125,268)	**(4,263,147)**	(2,457,548)
Equity-settled share-based payments	**116,230**	65,888	**334,548**	214,009
Finance expense	**114,309**	127,518	**379,541**	642,844
Provision for (recovery of) bad debts	**(14,442)**	(909,408)	**(279,065)**	1,767,543
Provision for inventory obsolescence	**565,770**	229,338	**1,671,651**	1,777,944
Interest paid	**(48,308)**	(42,005)	**(155,144)**	(316,793)
Income taxes received (paid)	**227,073**	(12,284)	**206,757**	426,989
Impairment loss	**-**	-	**-**	10,729,587
Change in non-cash working capital	**8,785,575**	4,552,828	**(4,910,344)**	30,250,584
Continuing operations	**22,300,870**	9,873,589	**32,580,232**	58,393,248
Discontinued operations	**(336,193)**	(473,604)	**(926,342)**	(612,383)
Net cash from operating activities	**21,964,677**	9,399,985	**31,653,890**	57,780,865
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**578,521**	785,879	**7,104,335**	5,300,008
Acquisition of drilling and other equipment	**(6,751,036)**	(1,815,513)	**(24,159,193)**	(22,078,182)
Acquisition of equity investment	**(3,000,500)**	-	**(3,000,500)**	-
Change in non-cash working capital	**(2,354,966)**	(295,943)	**2,360,763**	(373,126)
Continuing operations	**(11,527,981)**	(1,325,577)	**(17,694,595)**	(17,151,300)
Discontinued operations	**(2,728)**	51,649	**11,127**	5,308
Net cash used in investing activities	**(11,530,709)**	(1,273,928)	**(17,683,468)**	(17,145,992)
Cash flows from financing activities:				
Purchase of shares held in trust	**(2,769,829)**	-	**(6,086,000)**	-
Dividends paid to shareholders	**(1,259,757)**	-	**(3,785,162)**	-
Repurchase of shares under the NCIB	**(2,260,001)**	(3,192,246)	**(3,464,134)**	(3,192,246)
Payments of lease liability	**(832,303)**	(672,480)	**(2,438,183)**	(2,262,679)
Proceeds from issuance of share capital	**579,056**	-	**974,327**	7,750
Repayment of loans and borrowings	**-**	-	**-**	(13,960,400)
Repayment of operating facility	**-**	-	**-**	(11,395,835)
Surrender value cash payment	**-**	-	**-**	(1,518,042)
Continuing operations	**(6,542,834)**	(3,864,726)	**(14,799,152)**	(32,321,452)
Discontinued operations	**-**	-	**-**	(6,396)
Net cash used in financing activities	**(6,542,834)**	(3,864,726)	**(14,799,152)**	(32,327,848)
Net increase (decrease) in cash and cash equivalents	**3,891,134**	4,261,331	**(828,730)**	8,307,025
Cash and cash equivalents, beginning of period	**21,026,047**	14,627,990	**25,745,911**	10,582,296
Cash and cash equivalents, end of period	**$ 24,917,181**	$ 18,889,321	**$ 24,917,181**	$ 18,889,321