Management’s Discussion and Analysis

First Quarter Report for the three-month periods ended March 31, 2025 and 2024

The following Management’s Discussion and Analysis (“MD&A”) of the financial condition, results of operations, and cash flow of PHX Energy Services Corp. (“PHX Energy” or the “Corporation”) should be read in conjunction with the Corporation’s 2025 unaudited interim first quarter report, including the unaudited condensed consolidated interim financial statements and the accompanying notes contained therein as well as other sections contained within the Corporation’s 2025 first quarter report, and the Corporation’s 2024 annual report, including the MD&A, and audited consolidated financial statements and the accompanying notes contained therein as well as other sections contained within the Corporation’s 2024 annual report. Readers can also obtain additional information on the Corporation including its most recently filed Annual Information Circular and Annual Information Form (“AIF”) on SEDAR+ at www.sedarplus.ca. This MD&A has been prepared taking into consideration information available up to and including May 6, 2025.

PHX Energy’s Interim Financial Report for the three-month periods ended March 31, 2025 and 2024 have been prepared in accordance with IAS 34 Interim Financial Reporting. The MD&A and Interim Financial Report were reviewed by PHX Energy’s Audit Committee and approved by PHX Energy’s Board of Directors (the “Board”) on May 6, 2025.

This MD&A contains Forward-Looking Information and Non-GAAP and Other Financial Measures, including Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures. Please refer to the “Non-GAAP and Other Financial Measures” section of this MD&A for applicable definitions and reconciliations. Please refer to the “Cautionary Statement Regarding Forward-Looking Information and Statements” section of this MD&A.

Industry data cited throughout this MD&A is sourced from Baker Hughes North American rig counts (https://rigcount.bakerhughes.com/na-rig-count) and custom reports from Geologic Systems for Canadian industry operating days.

First Quarter Highlights

- For the three-month period ended March 31, 2025, PHX Energy’s consolidated revenue increased to an all-time quarterly record of $193.7 million, which is 17 percent higher than the $166.1 million generated in the first quarter of 2024 and 8 percent greater than the previous quarterly record of $178.7 million generated in the fourth quarter of 2024. Consolidated revenue in the 2025-quarter included $11.7 million of motor rental revenue and $2.6 million of revenue generated from the sale of motor equipment and parts (2024 - $8.2 million and $2.8 million, respectively).

- In the first quarter of 2025, adjusted EBITDA(1) was $40.7 million, 21 percent of consolidated revenue(1), which represents a 16 percent increase from the $35 million, 21 percent of consolidated revenue, in the same 2024-quarter. Included in the 2025-quarter’s adjusted EBITDA is $2.7 million in cash-settled share-based compensation expense (2024 - $5.7 million). Adjusted EBITDA excluding cash-settled share-based compensation expense(1) in the first quarter of 2025 was $43.3 million, 22 percent of consolidated revenue(1) (2024 - $40.7 million, 25 percent of consolidated revenue). The strong profitability in the 2025-quarter mainly resulted from growth in the Corporation’s high margin Rotary Steerable Systems (“RSS”) and motor rental revenue streams in the US and in Canada, and the reduction of equipment rentals particularly associated with RSS.

- Earnings in the 2025 three-month period were $20.2 million, $0.44 per share, as compared to $17.5 million, $0.37 per share, in the same 2024-period. Earnings in the 2025-period included depreciation and amortization expenses

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on drilling and other equipment of $12.6 million (pre-tax) which increased by 22 percent compared to $10.3 million (pre-tax) in the corresponding 2024-quarter as a result of fixed asset additions throughout 2024 and in the first quarter of 2025.

- In the 2025-quarter, PHX Energy's US division achieved record quarterly revenue of $136.1 million, 19 percent higher than the $114.2 million generated in the first quarter of 2024 and 3 percent greater than the previous quarterly record of $132.3 million generated in the fourth quarter of 2024. US division revenue in the 2025-quarter represented 70 percent of consolidated revenue (2024 – 69 percent).
- PHX Energy's Canadian division reported $57.6 million of quarterly revenue, 11 percent higher compared to $52 million in the 2024-quarter and the highest level of quarterly revenue for the Canadian division since 2014.
- In the 2025 three-month period, the Corporation generated excess cash flow[(2)] of $18.2 million, after deducting net capital expenditures[(2)] of $13.8 million (2024 - $7.4 million and $17.3 million, respectively).
- On March 14, 2025, the Corporation declared a dividend of $0.20 per share or $9.1 million, paid on April 15, 2025 to shareholders of record on March 31, 2025. In the first quarter of 2025, dividends paid were 4 percent less than in the same 2024-quarter, as a result of common shares being repurchased and canceled under the Corporation's NCIB during the 2024-year. There were no common shares purchased under the current NCIB in the 2025 three-month period.
- The Board has approved a $10 million increase to the previously approved 2025 capital expenditure budget of $55 million, which was approved in February 2025. The additional capital expenditures are largely expected to be directed towards growing the Corporation's RSS fleet and Real Time RSS Communications technology. PHX Energy now anticipates spending $65 million in capital expenditures during 2025.
- As at March 31, 2025, the Corporation had working capital[(2)] of $90.6 million and net debt[(2)] of $12.2 million.

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

Financial Highlights

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

	Three-month periods ended March 31,		
	2025	2024	% Change
Operating Results			
Revenue	**193,704**	166,123	17
Earnings	**20,159**	17,454	15
Earnings per share – diluted	**0.44**	0.37	19
Adjusted EBITDA [(1)]	**40,687**	35,033	16
Adjusted EBITDA per share – diluted [(1)]	**0.89**	0.74	20
Adjusted EBITDA as a percentage of revenue [(1)]	**21%**	21%	
Cash Flow			
Cash flows from operating activities	**10,919**	11,167	(2)
Funds from operations [(2)]	**33,362**	26,141	28
Funds from operations per share – diluted [(3)]	**0.73**	0.55	33
Dividends paid per share [(3)]	**0.20**	0.20	-
Dividends paid	**9,102**	9,453	(4)
Capital expenditures [(3)]	**24,692**	29,640	(17)
Excess cash flow [(2)]	**18,163**	7,431	144
Financial Position	**Mar 31 '25**	Dec 31 '24	
Working capital [(2)]	**90,629**	84,545	7
Net debt [(2)]	**12,174**	2,664	n.m.
Shareholders' equity	**233,583**	222,205	5
Common shares outstanding	**45,556,773**	45,506,773	-

n.m. – not meaningful

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Non-GAAP and Other Financial Measures

Throughout this MD&A, PHX Energy uses certain measures to analyze financial performance, financial position, and cash flow. These Non-GAAP and Other Specified Financial Measures do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP") and include Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures (collectively referred to as "Non-GAAP and Other Financial Measures"). These Non-GAAP and Other Specified Financial Measures include, but are not limited to, adjusted EBITDA, adjusted EBITDA per share, adjusted EBITDA excluding cash-settled share-based compensation expense, adjusted EBITDA as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, funds from operations, funds from operations per share, excess cash flow, net capital expenditures, net debt (net cash), working capital, and remaining distributable balance under ROCS. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and may be used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Outlook

Our strong first-quarter momentum has continued into the spring, with robust activity levels in both Canada and the US. Although we are experiencing strong activity, there are some uncertainties that have the potential to disrupt industry activity levels, such as a global recession driven by various nations' trade policies and OPEC+ production strategies. Oil prices have declined and if these low oil prices persist, they may lead operators to scale back their drilling programs, which could impact our activity levels and create pricing pressures. Additionally, if significant tariffs are implemented for a prolonged period, they could have an adverse impact on our cost structure and future profitability. Looking forward, we believe we have the potential to outperform industry trends.

Our strategic focus in both Canada and the US will remain on the advancement and deployment of cutting-edge technology, specifically RSS. Even with fluctuating industry conditions, we anticipate continued strong demand for RSS and we are advantageously positioned in this higher margin business. Since acquiring our initial 6 RSS tools in 2018, we have grown to be one of the top 3 RSS providers in North America. When we receive the additional RSS tools on order, we anticipate our fleet will be comprised of approximately 100 PowerDrive Orbit and iCruise tools as well as our proprietary Real Time RSS Communication technologies. We believe the powerful combination of our premium technologies, Velocity, Atlas, RSS and Real-Time RSS Communications, and ability to deliver operational efficiencies, will drive growth in a steady 2025 market and shelter us if a slower industry environment materializes.

Our capital allocation strategy remains focused on creating shareholder returns and preserving our balance sheet strength. This is primarily achieved through the high margin areas of our business, and we have increased our 2025 capital expenditure budget to fund RSS activity. Due to our strong financial results over the last number of years, we are in the enviable position of being able to proactively place orders for the majority of our revised $65 million budget without jeopardizing our financial stability in a time of uncertainty.

Our focus on premium technologies, high margins and balance sheet strength allows us to execute our Return of Capital Strategy ("ROCS"), in which we leverage dividends and NCIB purchases to reward our shareholders. We will prioritize the current dividend program while taking advantage of opportunistic market conditions for NCIB purchases where possible.

Our strategic focus on technology, client needs, and efficient capital allocation will enable us to sustain our high level of performance and shareholder returns. We will remain diligent in monitoring the evolving economic and industry conditions and will respond in the best interest of our shareholders.

Michael Buker, President & CEO
May 6, 2025

About PHX Energy Services Corp.

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

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

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

Financial Results

In the first quarter of 2025, PHX Energy achieved an all-time record level of quarterly consolidated revenue for the second consecutive quarter and strong profitability results with 15 percent growth in earnings and 16 percent increase in adjusted EBITDA(1).

During the 2025-period, the Corporation maintained its focus on growing its high-margin RSS and motor rental revenue streams and making strategic capital acquisitions targeted at displacing equipment rentals where possible. These allowed PHX Energy to grow its activity and improve profitability amidst the relatively static and competitive market conditions in both Canada and US. For the three-month period ended March 31, 2025, the Corporation generated consolidated revenue of $193.7 million, the highest level of quarterly revenue in its history and a 17 percent gain over the $166.1 million of consolidated revenue in the same 2024-quarter. In the 2025 three-month period, earnings increased by 15 percent to $20.2 million (2024 - $17.5 million), adjusted EBITDA(1) increased by 16 percent to $40.7 million (2024 - $35 million), and adjusted EBITDA as a percentage of consolidated revenue(1) was 21 percent (2024 – 21 percent). Earnings in the 2025-period included depreciation and amortization expenses on drilling and other equipment of $12.6 million (pre-tax) which increased by 22 percent compared to $10.3 million (pre-tax) in the corresponding 2024-quarter as a result of fixed asset additions throughout 2024 and in the first quarter of 2025. Included in the 2025 three-month period adjusted EBITDA is cash-settled share-based compensation expense of $2.7 million (2024 - $5.7 million). For the three-month period ended March 31, 2025, adjusted EBITDA excluding cash-settled share-based compensation expense was $43.3 million (2024 - $40.7 million).

For the three-month period ended March 31, 2025, the Corporation's US division's revenue grew by 19 percent to a record $136.1 million compared to $114.2 million in the same 2024-quarter and increased by 3 percent compared to the previous record of $132.3 million in the fourth quarter of 2024. The US industry's rig count declined by 6 percent compared to the first quarter of 2024. In comparison, PHX Energy's US operating days(3) saw an increase of 9 percent to 4,549 days from 4,168 in the 2024-quarter. The US division's average revenue per day(3) for directional drilling services increased by 9 percent quarter-over-quarter. Without the impact of foreign exchange, the average revenue per day for directional drilling services was up 5 percent. In the 2025-quarter, the Corporation's US motor rental division successfully expanded its market share and grew its motor rental revenue by 39 percent to $11 million from $7.9 million in the 2024-quarter. In the 2025 three-month period, the US division generated $2.6 million of revenue from motor equipment and parts sold (2024-quarter - $2.8 million). Revenue from the Corporation's US division in the 2025-quarter represented 70 percent of consolidated revenue (2024 – 69 percent).

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The Corporation's Canadian division generated its highest level of quarterly revenue since 2014 in the 2025 three-month period. The $57.6 million achieved is an 11 percent increase from $52 million in the same 2024-period and is only 3 percent lower than the all-time quarterly record reported in the fourth quarter of 2014. The Canadian segment recorded 4,052 operating days in the 2025-quarter, a 5 percent increase from the 3,858 operating days realized in the comparable 2024-quarter which is slightly above the Canadian industry drilling activity's 3 percent gain (measured by horizontal and directional drilling days) quarter-over-quarter. Average revenue per day(3) realized by the Canadian division improved by 5 percent to $14,037 in the 2025-quarter, as compared to $13,390 in the corresponding 2024-quarter and the Corporation's Canadian motor rental division generated $0.7 million of revenue in the 2025-period (2024 - $0.3 million).

As at March 31, 2025, the Corporation had working capital(2) of $90.6 million and net debt(2) of $12.2 million. The Corporation also has CAD $71.5 million and USD $18 million available to be drawn from its credit facilities.

Dividends and ROCS

On March 14, 2025, the Corporation declared a dividend of $0.20 per share payable to shareholders of record on March 31, 2025. An aggregate of $9.1 million was paid on April 15, 2025.

The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") which targets up to 70 percent of annual excess cash flow to be used for shareholder returns and includes multiple options including the dividend program and the NCIB. For the three-month period ended March 31, 2025, excess cash flow increased primarily due to higher funds from operations(2) and lower capital expenditures. Management continued to prioritize shareholder returns while protecting its financial position and less than 70 percent of excess cash flow was distributed for shareholder returns under ROCS. The Corporation maintained its current level of dividends, paying $9.1 million in dividends to shareholders, and no NCIB purchases were made. As a result, the remaining distributable balance under ROCS(2) in the 2025-period was $3.6 million. The Corporation will target the level of excess cash flow to be used for shareholder returns to stay within the 70 percent threshold for the rest of the 2025-year, particularly given the uncertainty related to economic and industry conditions in light of weak commodity prices and global trade polices.

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(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Excess cash flow	**18,163**	7,431
70% of excess cash flow	**12,714**	5,202
Deduct:		
Dividends paid to shareholders	**(9,102)**	(9,453)
Repurchase of shares under the NCIB	**-**	-
Remaining distributable balance under ROCS	**3,612**	(4,251)

Normal Course Issuer Bid

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

Pursuant to the current NCIB, no common shares were purchased by the Corporation and cancelled in the three-month period ended March 31, 2025.

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

Capital Spending

For the three-month period ended March 31, 2025, the Corporation spent $24.7 million in capital expenditures, of which $15.6 million was spent on growing the Corporation's fleet of drilling equipment, $7.8 million was spent to replace retired assets, and $1.3 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $10.9 million, the Corporation's net capital expenditures(2) for the 2025-period were $13.8 million. Capital expenditures in the 2025-quarter were primarily directed towards Atlas High Performance motors ("Atlas"), Velocity Real-Time systems ("Velocity"), and RSS, both PowerDrive Orbit and iCruise. PHX Energy funded capital spending primarily using proceeds on disposition of drilling equipment, cash flows from operating activities, and its credit facilities when required.

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(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Growth capital expenditures	**15,605**	24,224
Maintenance capital expenditures from asset retirements	**7,837**	4,141
Maintenance capital expenditures to replace downhole equipment losses	**1,250**	1,275
Total capital expenditures	**24,692**	29,640
Deduct:		
Proceeds on disposition of drilling equipment	**(10,919)**	(12,301)
Net capital expenditures	**13,773**	17,339

As at March 31, 2025, the Corporation had capital commitments to purchase drilling and other equipment for $33.2 million, $24.4 million of which is growth capital allocated as follows: $10.2 million for Velocity systems, $6.5 million for performance drilling motors, $5.8 million for RSS systems, and $1.9 million for other equipment. Equipment on order is expected to be delivered within the second quarter of 2025.

In February 2025, the Board approved an increase to the 2025 capital expenditure budget from $50 million to $55 million and in May 2025 approved an additional $10 million in capital expenditures which largely relate to growing the Corporation's RSS fleet and Real Time RSS Communications technology. PHX Energy now anticipates spending $65 million in capital expenditures during 2025. Of the total expenditures, $40 million is anticipated to be spent on growth and the remainder is anticipated to be spent to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations.

The Corporation currently possesses approximately 909 Atlas motors, comprised of various configurations including its 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", 9.00", 9.62", and 12.00" Atlas motors, and 133 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 93 RSS tools and the only fleet currently comprised of both the PowerDrive Orbit and iCruise systems.

Global Trade and Supply Chain Risks Update

Since coming into office in January this year, the US Administration has announced and implemented various tariffs against Canada and other nations, including China. The effective dates of some of these new tariffs have been postponed and some of the new tariffs have come into effect briefly, before being subsequently paused. In response to the new US tariffs, the Canadian government as well as the governments of other nations have announced and/or implemented retaliatory tariffs. These new tariffs and any changes to these tariffs or imposition of any additional tariffs, taxes or import or export restrictions or prohibitions, could have material impacts on global economies, the Canadian and US oil and natural gas industries, interest and inflation rates, and the Corporation's supply chains. The resulting higher levels of volatility and uncertainty could result in actual results being different from management's current estimates and those differences could be material.

The Corporation leverages certain market advantages and internal capabilities in its Canadian and US operations as part of its servicing, manufacturing and procurement processes that could be specifically impacted in an adverse manner. As a result, current and future tariffs, as well as the risk that tariffs imposed by the US on other countries including China has the potential to trigger an even broader global trade war, could have a material adverse impact on oil and gas industry activity levels in general, as well as a direct impact on the Corporation's own cost structure and supply chain.

The Corporation's supply chain and procurement team has been actively monitoring tariffs and working on strategies to help mitigate their impact which include, but are not limited to, negotiating with current suppliers, diversifying local and international supply chains, and increasing shipments of equipment and inventory required for its US operations cross-border prior to the effective date of such tariffs. Although the Corporation believes such strategies will somewhat mitigate the impact of tariffs, if significant tariffs affecting the Corporation are implemented for a prolonged period their impact on the Corporation's operations and results may be material to the Corporation.

Results of Operations

Three-Month period ended March 31, 2025

Revenue

The Corporation generates revenue primarily through the provision of directional drilling services which includes providing equipment, personnel, and operational support for drilling a well. Additionally, the Corporation generates revenue through the rental and sale of drilling motors and associated parts, particularly Atlas.

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2025	2024	% Change
Directional drilling services	**179,360**	155,058	16
Motor rental	**11,706**	8,246	42
Sale of motor equipment and parts	**2,638**	2,819	(6)
Total revenue	**193,704**	166,123	17

For the three-month period and year ended March 31, 2025, PHX Energy's consolidated revenue increased to an all-time quarterly record of $193.7 million, which is 17 percent higher than the $166.1 million in the corresponding 2024-period and 8 percent greater than the previous record achieved in the fourth quarter of 2014.

As seen in 2024, both PHX Energy's US and Canadian divisions' activity continued to outperform industry activity trends. In the first quarter of 2025, there were an average of 575 horizontal and directional rigs operating per day in the US which is virtually the same level as the daily average of 571 in the fourth quarter of 2024. Quarter-over-quarter, the average number of horizontal and directional rigs operating per day in the US declined by 6 percent. In Canada, industry horizontal and directional drilling activity (as measured by drilling days) was 17,867 days in the 2025-quarter, a 3 percent increase from 17,380 days in the same 2024-quarter. In comparison, the Corporation's US and Canadian operating days(3) grew by 9 percent and 5 percent respectively quarter-over-quarter and consolidated operating days increased by 7 percent to 8,600 days in the 2025-quarter from 8,025 days in the 2024-quarter.

Average consolidated revenue per day(3) for directional drilling services period-over-period improved by 8 percent to $20,856 in the 2025-quarter (2024 – $19,322). The increase was mainly driven by higher RSS activity in both Canada and the US and increased deployment of the Corporation's proprietary Real Time RSS Communications technologies. The stronger US dollar also favorably affected the average consolidated revenue per day in the 2025-period.

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Revenue generated by the PHX Energy's Atlas motor rental division increased by 42 percent to $11.7 million in the 2025-quarter (2024 - $8.2 million). In the 2025-quarter, the Corporation's US motor rental division successfully expanded its market share through improved marketing efforts, additional resources dedicated to support the division and more fleet availability with quicker turnarounds times for servicing. Sale of motor equipment and parts decreased by 6 percent to $2.6 million in the 2025-period (2024 - $2.8 million). Due to the sporadic and cyclical nature of the customers' ordering frequency, it is expected that revenue from this line of business will fluctuate between periods.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2025	2024	% Change
Direct costs	**153,415**	129,044	19
Depreciation & amortization drilling and other equipment (included in direct costs)	**12,569**	10,319	22
Depreciation & amortization right-of-use asset (included in direct costs)	**888**	849	5
Gross profit as a percentage of revenue excluding depreciation & amortization (1)	**28%**	29%	

Direct costs are comprised of field and shop expenses, costs of motors and parts sold, and include depreciation and amortization of the Corporation's equipment and right-of-use assets. For the three-month period ended March 31, 2025, direct costs increased by 19 percent to $153.4 million from $129 million in the same 2024-period.

In the first quarter of 2025, the Corporation's depreciation and amortization on drilling and other equipment increased by 22 percent, mainly as a result of the additions to fixed assets throughout 2024 and in the first quarter of 2025. Apart from depreciation and amortization expenses on drilling and other equipment, higher direct costs in the period primarily resulted from greater equipment repair expenses from increased overall activity, particularly related to RSS and motor rentals, rising costs of materials and services, and customers' increased servicing requirements.

For the three-month period ended March 31, 2025, gross profit as a percentage of revenue excluding depreciation and amortization(1) was 28 percent, compared to 29 percent in the corresponding 2024-period. The slight decrease in profitability in the 2025-period is primarily attributable to rising equipment servicing costs. The negative impact of rising equipment servicing costs was partially offset by lower RSS-related equipment rentals that were displaced through increased capacity in PHX Energy's RSS fleet.

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(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,		
	2025	2024	% Change
Selling, general and administrative ("SG&A") costs	**19,130**	21,017	(9)
Cash-settled share-based compensation (included in SG&A costs)	**2,660**	5,710	(53)
Equity-settled share-based compensation (included in SG&A costs)	**89**	100	(11)
SG&A costs excluding share-based compensation as a percentage of revenue(1)	**8%**	9%	

For the three-month period ended March 31, 2025, SG&A costs were $19.1 million, a 9 percent decrease as compared to $21 million in the corresponding 2024-period. In the 2025-quarter, the decrease in SG&A costs was mainly due to lower cash-settled share-based compensation expense during the period that was partially offset by increases in personnel-related costs.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three-month period ended March 31, 2025, the related compensation expense recognized by PHX Energy was $2.7 million (2024 - $5.7 million). Changes in cash-settled share-based compensation expense in the 2025-period was mainly driven by fluctuations in the Corporation's share price and the number of awards granted in the period. There were 1,326,596 retention awards outstanding as at March 31, 2025 (2024 – 1,527,685). SG&A costs excluding share-based compensation as a percentage of revenue(1) improved slightly at 8 percent in the 2025 three-month period (2024 – 9 percent).

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2025	2024	% Change
Research and development expense	**1,780**	1,202	48

For the three-month period ended March 31, 2025, PHX Energy spent $1.8 million on R&D expenditures, an increase of 48 percent as compared to $1.2 million spent in the corresponding 2024-period. In the 2025-quarter, higher R&D expenditures are mainly attributable to key projects having a larger scope which required increased personnel related costs and greater prototype and equipment parts expenses. The Corporation's R&D department remains focused on improving the design of existing technologies to further enhance reliability, reduce costs to operate, and continue displacing certain equipment rentals.

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(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2025	2024	% Change
Finance expense	**606**	334	81
Finance expense lease liabilities	**506**	541	(6)

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period ended March 31, 2025, finance expense increased to $0.6 million (2024 - $0.3 million). The increase in finance expenses in the 2025-quarter was primarily due to higher drawings on the credit facilities in the period.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three-month period ended March 31, 2025, finance expense lease liabilities remained consistent at $0.5 million (2024 - $0.5 million) as no new significant leases were entered into in the period.

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Net gain on disposition of drilling equipment	**7,861**	8,886
Foreign exchange losses	**(216)**	(129)
Other income	**7,645**	8,757

For the three-month period ended March 31, 2025, the Corporation recognized other income of $7.6 million (2024 - $8.8 million). In both periods, other income was mainly comprised of net gain on disposition of drilling equipment. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life. In the 2025-quarter, fewer instances of high dollar valued downhole equipment losses occurred as compared to the corresponding 2024-period, resulting in lower levels of net gain on disposition of drilling equipment recognized. Fewer instances of high dollar valued downhole equipment losses can be attributed to operators generally improving their drilling practices and continuous improvements in the Corporation's technology design to avoid such instances.

Foreign exchange losses of $0.2 million in the three-month period of 2025 (2024 – $0.1 million), were primarily due to the revaluation and settlement of USD-denominated payables in Canada.

(Stated in thousands of dollars except percentages)

	Three-month periods ended March 31,	
	2025	2024
Provision for income taxes	**5,753**	5,288
Effective tax rates [3]	**22%**	23%

For the three-month period ended March 31, 2025, the Corporation reported a provision for income tax of $5.8 million (2024 – $5.3 million). In the 2025-quarter, PHX Energy's effective tax rate[3] of 22 percent is relatively in line with the combined US federal and state corporate income tax rate of 24.5 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent.

Segmented Information

The Corporation reports two operating segments on a geographical basis throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US and throughout the Western Canadian Sedimentary Basin. Revenue generated through the Corporation's technology partnership and sales and lease agreement for the Middle East and North Africa ("MENA") regions are included in the US division's results.

United States

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2025	2024	% Change
Directional drilling services	**122,488**	103,406	18
Motor rental	**11,014**	7,925	39
Sale of motor equipment and parts	**2,638**	2,819	(6)
Total revenue	**136,140**	114,150	19
Direct costs	**109,296**	88,804	23
Gross profit	**26,844**	25,346	6
Expenses:			
Selling, general and administrative expenses	**7,837**	7,675	2
Research and development expenses	**-**	-	-
Finance expense	**-**	-	-
Finance expense lease liability	**195**	218	(11)
Other income	**(4,644)**	(6,632)	(30)
Reportable segment profit before income taxes	**23,456**	24,085	(3)

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

Continuing its momentum from the fourth quarter of 2024, in the first quarter of 2025, PHX Energy's US division generated an all-time record level of quarterly revenue, $136.1 million, 19 percent higher than the $114.2 million generated in the first quarter of 2024, and 3 percent greater than the previous record set in the fourth quarter of 2024.

In the 2025 three-month period, the Corporation's US operations continued to be resilient to the weak industry activity. For the three-month period ended March 31, 2025, US operating days[(3)] were 4,549, a 9 percent increase compared to 4,168 days in the 2024-quarter. In comparison, in the first quarter of 2025, the average number of active horizontal and directional rigs per day in the US industry declined by 6 percent to 575 compared to an average of 610 rigs per day in the 2024-quarter. The US division's RSS activity represented 22 percent of its operating days which is higher compared to 20 percent represented in the 2024-quarter.

Horizontal and directional drilling continued to represent the majority of rigs running on a daily basis during the first quarter of 2025. During the 2025-quarter, Phoenix USA was active in the Permian, Eagleford, Scoop/Stack, and Marcellus basins. Additionally, Phoenix USA was involved with carbon capture and gas storage projects in Indiana, Michigan, Louisiana and Texas.

For the three-month period ended March 31, 2025, the US division's average revenue per day[(3)] for directional drilling services increased by 9 percent to $26,929 from $24,812 in the 2024-quarter. The improvement in the US division's average revenue per day for directional drilling services was mainly driven by the increase in RSS activity as a percentage of its operating days as well as greater deployment of PHX Energy's proprietary Real Time RSS Communications technologies. Strong US dollar also favorably affected the average revenue per day in the 2025-period. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services increased by 5 percent in the 2025-quarter.

For the three-month period ended March 31, 2025, US motor rental revenue increased by 39 percent to $11 million (2024 - $7.9 million). In the first quarter of 2025, the Corporation's US motor rental division successfully expanded its market share through improved marketing efforts and additional resources dedicated to support the operations of the division. In addition, with constraints on the servicing facility's capacity being alleviated, turnaround times for the US division's motor rental activities have improved.

In the 2025 three-month period, PHX Energy's US operations generated $2.6 million of revenue from the sale of motors and parts compared to $2.8 million in the corresponding 2024-period. Due to the sporadic and cyclical nature of the customers' ordering frequency, it is expected that revenue from this line of business will fluctuate between periods.

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

For the three-month period ended March 31, 2025, the US segment's reportable segment income before tax decreased by 3 percent to $23.5 million from $24.1 million in the same 2024-period. The decrease in the US segment's reportable segment income before tax in the 2025-period is largely attributable to fewer instances of downhole equipment losses; US segment's gross profit increased by 6 percent in the 2025-period.

Canada

(Stated in thousands of dollars)

	Three-month periods ended March 31,		
	2025	2024	% Change
Directional drilling services	**56,872**	51,652	10
Motor rental	**692**	321	116
Total revenue	**57,564**	51,973	11
Direct costs	**44,119**	40,240	10
Gross profit	**13,445**	11,733	15
Expenses:			
Selling, general and administrative expenses	**4,197**	4,136	1
Research and development expenses	**-**	-	-
Finance expense	**-**	-	-
Finance expense lease liability	**290**	303	(4)
Other income	**(3,001)**	(2,125)	41
Reportable segment profit before income taxes	**11,959**	9,419	27

For the three-month period ended March 31, 2025, PHX Energy's Canadian operations generated revenue of $57.6 million, an 11 percent increase from $52 million in the same 2024-period and only 3 percent lower than the all-time quarterly record reported in the fourth quarter of 2014.

In the 2025 three-month period, PHX Energy's Canadian segment's operating days[(3)] grew by 5 percent to 4,052 days from 3,858 days in the same 2024-quarter and its RSS operating days accounted for 6 percent of its activity in the 2025-period (2024 - 4 percent). In comparison, industry horizontal and directional drilling activity, as measured by drilling days, increased by 3 percent to 17,867 in the first quarter of 2025 from 17,380 in the 2024-quarter. In the 2025-period, the Canadian segment's growth in activity primarily resulted from its increasing market presence as an RSS provider. During the 2025-quarter, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Ellerslie, Charlie Lake, Cummings, Sparky, Clearwater, and Scallion basins.

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

The Canadian division's average revenue per day[3] for directional drilling services increased 5 percent to $14,037 in the 2025-quarter, as compared to $13,390 in the corresponding 2024-quarter. The increase was mainly driven by higher RSS days as a percentage of total activity.

PHX Energy's Canadian reportable segment profit increased by 27 percent to $12 million in the 2025-quarter from $9.4 million in the 2024-quarter. The increase in profitability in the 2025-period was mainly due to increased activity in the Canadian segment's high-margin RSS revenue stream and more instances of downhole equipment losses while maintaining the same level of SG&A costs.

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Cash flows from operating activities	**10,919**	11,167
Funds from operations[2]	**33,362**	26,141

	Mar. 31, '25	Dec. 31, '24
Working capital[2]	**90,629**	84,545
Net debt[2]	**12,174**	2,664

Cash flow from operating activities was relatively flat at $10.9 million in the first quarter of 2025 compared to $11.2 million in the same 2024-quarter. The slight decrease in the 2025 three-month period was primarily due to the higher levels of income taxes paid that was partially offset by higher earnings. For the three-month period ended March 31, 2025, funds from operations[2] was $33.4 million, as compared to $26.1 million in the comparable 2024-period. The increase in funds from operations primarily resulted from higher earnings in the 2025-period.

As at March 31, 2025, the Corporation had working capital[2] of $90.6 million, an increase of $6.1 million from the $84.5 million reported at December 31, 2024. The increase in working capital at March 31, 2025 was primarily due to higher levels of trade and other receivables at the end of the 2025-period. Net debt[2] as at March 31, 2025 was $12.2 million as compared $2.7 million at the end of 2024. The increase in net debt was due to higher levels of drawings that were used to fund acquisitions of drilling and other equipment in the quarter.

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

Cash Flow, Dividends, and ROCS

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

For the three-month period ended March 31, 2025, dividend payments of $9.1 million were financed from the Corporation's funds from operations(2) (2024 - $9.5 million). On March 14, 2025, the Corporation declared a dividend of $0.20 per common share payable to shareholders of record on March 31, 2025. An aggregate of $9.1 million was paid on April 15, 2025.

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

Pursuant to the current NCIB, no common shares were purchased by the Corporation and cancelled in the three-month period ended March 31, 2025 and there are 2.3 million shares remaining for purchase prior to its expiry in August of this year.

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

Investing Activities

Net cash used in investing activities for the three-month period ended March 31, 2025 was $10.5 million as compared to $4.9 million in the corresponding 2024-period. During the first quarter of 2025, the Corporation spent $15.6 million (2024 - $24.2 million) to grow the Corporation's fleet of drilling equipment, $7.8 million (2024 - $4.1 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment, and $1.3 million (2024 - $1.3 million) was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $10.9 million (2024 - $12.3 million), the Corporation's net capital expenditures for the 2025-period were $13.8 million (2024 - $17.3 million).

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Growth capital expenditures	**15,605**	24,224
Maintenance capital expenditures from asset retirements	**7,837**	4,141
Maintenance capital expenditures to replace downhole equipment losses	**1,250**	1,275
Total capital expenditures	**24,692**	29,640
Deduct:		
Proceeds on disposition of drilling equipment	**(10,919)**	(12,301)
Net capital expenditures	**13,773**	17,339

The 2025-quarter capital expenditures comprised of:

- $8.4 million in downhole performance drilling motors;
- $7.9 million in RSS;
- $7.5 million in MWD systems and spare components; and
- $0.9 million in machinery and equipment and other assets.

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

The change in non-cash working capital balances of $6.9 million (source of cash) for the three-month period ended March 31, 2025, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets (2024 - $12.5 million).

Financing Activities

For the three-month period ended March 31, 2025, net cash used in financing activities was $0.6 million as compared to $9.6 million in the same 2024-period. In the 2025-quarter:

- dividends of $9.1 million were paid to shareholders;
- payments of $0.9 million were made towards lease liabilities;
- $9.3 million net drawings were made from the Corporation's syndicated credit facility; and
- 50,000 common shares were issued from treasury for proceeds of $0.2 million upon the exercise of share options.

Capital Resources

As of March 31, 2025, the Corporation had CAD $23.3 million drawn on its Canadian credit facilities, USD $2 million drawn on its US operating facility, and a cash balance of $14 million. As at March 31, 2025, the Corporation had CAD $71.5 million and USD $18 million available from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2026.

As at March 31, 2025, the Corporation was in compliance with all its financial covenants. Under the syndicated credit agreement, in any given period, the Corporation's distributions (as defined therein) cannot exceed its maximum aggregate amount of distributions limit as defined in the Corporation's syndicated credit agreement. Distributions include, without limitation, dividends declared and paid, cash used for common shares purchased by the independent trustee in the open market and held in trust for potential settlement of outstanding retention awards, as well as cash used for common shares repurchased and cancelled under the NCIB.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, proceeds on disposition of drilling equipment, debt and equity. In February 2025, the Board approved an increase to the preliminary 2025 capital expenditure budget from $50 million to $55 million. With $10 million in expected additional capital expenditures largely related to growing the Corporation's RSS fleet and Real Time RSS Communications technology, PHX Energy now anticipates spending $65 million in capital expenditures during 2025. Of the total expenditures, $40 million is anticipated to be spent on growth and the remainder is anticipated to be spent to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations. The amount expected to be allocated towards replacing equipment lost downhole could increase, should more downhole equipment losses occur throughout the year.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary. However, if a sustained period of market uncertainty, threat of trade wars, and financial market volatility persists in 2025, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at March 31, 2025, the Corporation has commitments to purchase drilling and other equipment for $33.2 million. Delivery is expected to occur within the second quarter of 2025.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at March 31, 2025 and 2024.

Proposed Transactions

The Corporation regularly reviews and evaluates possible strategic material business or asset acquisitions or capital asset divestitures in the normal course of its operations.

Critical Accounting Estimates and Judgments

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Corporation's material accounting policies are described in its annual audited consolidated financial statements for the year ended December 31, 2024.

The preparation of the condensed consolidated interim financial statements in conformity with IFRS Accounting Standards as issued by the International Accounting Standards Board requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial statements, the estimates and judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2024.

Changes in Accounting Policies

The condensed consolidated interim financial statements have been prepared utilizing the same material accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2024.

Business Risk Factors

Business risk factors applicable to the Corporation can be found in the "*Business Risk Factors*" section of the MD&A in PHX Energy's 2024 Annual Report as well as in the Corporation's most recent Annual Information Form under the heading "*Risk Factors*", which was filed under the Corporation's profile on SEDAR+ (www.sedarplus.ca).

Corporate Governance

This MD&A has been prepared by the management of PHX Energy and it has been reviewed and approved by the Audit Committee and the Board of the Corporation. Additional information relating to the Corporation's Corporate Governance can be found in the Corporation's AIF and in its Information Circular in respect of its annual meeting of Shareholders, each of which are annually filed on SEDAR+ at www.sedarplus.ca.

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to the Corporation's management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls Over Financial Reporting

The Corporation's Certifying Officers have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Corporation. ICFR includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the annual financial statements or interim financial reports.

The control framework used to design and evaluate the Corporation's ICFR is "Internal Control - Integrated Framework (2013)" published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

There were no changes in the Corporation's ICFR that occurred during the period from January 1, 2025 to March 31, 2025 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provide a reasonable level of assurance and are effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Outstanding Corporation Share Data

	As at May 6, 2025
Common shares outstanding, excluding shares held in trust	45,556,771
Common shares held in trust [i]	3,301
Total common shares outstanding	45,560,072
Dilutive securities:	
Options	1,131,667
Corporation shares – diluted	46,691,739

[i] Common Shares held in trust by an independent trustee for the potential future settlement of retention awards granted to eligible participant's under the Corporation's Retention Award Plan

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Mar-25	Dec-24	Sep-24	Jun-24	Mar-24	Dec-23	Sep-23	Jun-23
Revenue	**193,704**	178,676	160,634	154,230	166,123	165,332	169,368	155,618
Earnings	**20,159**	14,098	10,160	12,913	17,454	33,134	24,921	18,108
Earnings per share - basic	**0.44**	0.31	0.22	0.27	0.37	0.69	0.50	0.35
Earnings per share - diluted	**0.44**	0.30	0.22	0.26	0.37	0.68	0.50	0.35
Dividends paid	**9,102**	9,183	9,437	9,498	9,453	7,277	7,621	7,656
Cash and cash equivalents	**13,971**	14,163	14,203	13,798	13,380	16,433	14,845	20,080
Loans and borrowings	**26,145**	16,827	19,171	9,649	7,547	7,564	18,302	27,685

Trends in revenue, earnings, and cash flows are directly affected by industry directional drilling activity levels that change as a result of world demand for natural gas and oil commodities and fluctuations in oil and natural gas prices. In the first quarter of 2025, the US industry rig count continued to be soft while Canadian industry horizontal and directional drilling activity (as measured by drilling days) was stagnant, increasing by only 3 percent compared to the same 2024-quarter. With increased capacity in its premium technology fleet and continued strong demand for the Corporation's unique technology offering, activity in both the US and Canadian divisions continued to outperform industry activity trends which primarily drove gains in revenue and earnings in the 2025 three-month period.

In general, activity levels in western Canada vary considerably due to seasonal weather patterns. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring break-up" has a direct impact on the Corporation's Canadian activity levels. As a result, late March through May is typically the slowest time for activity in Canada, as such, the operating results of the Corporation vary on a quarterly basis. The Corporation's activity levels in the US are not impacted at the same level during this Canadian spring break-up period. US revenue represented 70 percent of consolidated revenue in the 2025 three-month period (2024 – 69 percent).

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) Adjusted EBITDA

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

The following is a reconciliation of earnings to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Earnings:	**20,159**	17,454
Add:		
Depreciation and amortization drilling and other equipment	**12,569**	10,319
Depreciation and amortization right-of-use asset	**888**	849
Provision for (Recovery of) income taxes	**5,753**	5,288
Finance expense	**606**	334
Finance expense lease liability	**506**	541
Equity-settled share-based payments	**89**	100
Unrealized foreign exchange loss (gain)	**117**	148
Adjusted EBITDA	**40,687**	35,033

b) Adjusted EBITDA Per Share - Diluted

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

c) Adjusted EBITDA as a Percentage of Revenue

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

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

Adjusted EBITDA excluding cash-settled share-based compensation expense is calculated by adding cash-settled share-based compensation expense to adjusted EBITDA as described above. Management believes that this measure provides supplemental information to earnings that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed, how it was taxed in various countries, and without the impact of cash-settled share-based compensation expense that is affected by fluctuations in the Corporation's share price.

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Earnings:	**20,159**	17,454
Add:		
Depreciation and amortization drilling and other equipment	**12,569**	10,319
Depreciation and amortization right-of-use asset	**888**	849
Provision for (recovery of) income taxes	**5,753**	5,288
Finance expense	**606**	334
Finance expense lease liability	**506**	541
Equity-settled share-based payments	**89**	100
Unrealized foreign exchange loss	**117**	148
Cash-settled share-based compensation expense	**2,660**	5,710
Adjusted EBITDA excluding cash-settled share-based compensation expense	**43,347**	40,743

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

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

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Revenue	**193,704**	166,123
Direct costs	**153,415**	129,044
Gross profit	**40,289**	37,079
Depreciation & amortization drilling and other equipment (included in direct costs)	**12,569**	10,319
Depreciation & amortization right-of-use asset (included in direct costs)	**888**	849
	53,746	48,247
Gross profit as a percentage of revenue excluding depreciation & amortization	**28%**	29%

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
SG&A Costs	**19,130**	21,017
Deduct:		
Share-based compensation (included in SG&A)	**2,749**	5,810
	16,381	15,207
Revenue	**193,704**	166,123
SG&A costs excluding share-based compensation as a percentage of revenue	**8%**	9%

Capital Management Measures

a) Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Cash flows from operating activities	**10,919**	11,167
Add (deduct):		
Changes in non-cash working capital	**16,574**	14,585
Interest paid	**384**	204
Income taxes paid	**5,485**	185
Funds from operations	**33,362**	26,141

b) <u>Excess Cash Flow</u>

Excess cash flow is defined as funds from operations (as defined above) less cash payment on leases, growth capital expenditures, and maintenance capital expenditures from downhole equipment losses and asset retirements, and increased by proceeds on disposition of drilling equipment. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses excess cash flow as an indication of the Corporation's ability to generate funds from its operations to support operations and grow and maintain the Corporation's drilling and other equipment. This performance measure is useful to investors for assessing the Corporation's operating and financial performance, leverage and liquidity. Investors should be cautioned, however, that this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. PHX Energy's method of calculating excess cash flow may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of cash flows from operating activities to excess cash flow:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Cash flows from operating activities	**10,919**	11,167
Add (deduct):		
Changes in non-cash working capital	**16,574**	14,585
Interest paid	**384**	204
Income taxes paid (received)	**5,485**	185
Cash payment on leases	**(1,426)**	(1,371)
	31,936	24,770
Proceeds on disposition of drilling equipment	**10,919**	12,301
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**(9,087)**	(5,416)
Net proceeds	**1,832**	6,885
Growth capital expenditures	**(15,605)**	(24,224)
Excess cash flow	**18,163**	7,431

c) Working Capital

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

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

(Stated in thousands of dollars)

	March 31, 2025	December 31, 2024
Current assets	**228,741**	214,017
Deduct:		
Current liabilities	**(138,112)**	(129,472)
Working capital	**90,629**	84,545

d) Net Debt (Net Cash)

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

The following is a reconciliation of loans and borrowings and cash to net debt:

(Stated in thousands of dollars)

	March 31, 2025	December 31, 2024
Loans and borrowings	**26,145**	16,827
Deduct:		
Cash	**(13,971)**	(14,163)
Net debt (Net cash)	**12,174**	2,664

e) Net Capital Expenditures

Net capital expenditures is comprised of total additions to drilling and other long-term assets, as determined in accordance with IFRS, less total proceeds from disposition of drilling equipment, as determined in accordance with IFRS. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses net capital expenditures to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating net capital expenditures may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of additions to drilling and other equipment and proceeds from disposition of drilling equipment to net capital expenditures:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Growth capital expenditures	**15,605**	24,224
Maintenance capital expenditures from asset retirements	**7,837**	4,141
Maintenance capital expenditures to replace downhole equipment losses	**1,250**	1,275
Total capital expenditures	**24,692**	29,640
Deduct:		
Proceeds on disposition of drilling equipment	**(10,919)**	(12,301)
Net capital expenditures	**13,773**	17,339

f) Remaining Distributable Balance under ROCS

Remaining distributable balance under ROCS is comprised of 70% of excess cash flow as defined above less repurchases of shares under the Normal Course Issuer Bids in effect during the period and less the dividends paid to shareholders during the period. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses the remaining distributable balance under ROCS to provide insight as to the Corporation's ROCS strategy as at the reporting date. PHX Energy's method of calculating remaining distributable balance under ROCS may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of excess cash flow as defined above to remaining distributable balance under ROCS:

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Excess cash flow	**18,163**	7,431
70% of excess cash flow	**12,714**	5,202
Deduct:		
Dividends paid to shareholders	**(9,102)**	(9,453)
Repurchase of shares under the NCIB	**-**	-
Remaining Distributable Balance under ROCS	**3,612**	(4,251)

Supplementary Financial Measures

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

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

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

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

***"Effective tax rate*"** is comprised of provision for or recovery of income tax, as determined in accordance with IFRS, divided by earnings before income taxes, as determined in accordance with IFRS.

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

Definitions

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

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

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

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

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

In particular, forward-looking information and statements contained in this MD&A include, without limitation:

- The Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through its dividend program, the ROCS program and its NCIB, particular during this times of market weaknesses ;
- The Corporation will target the level of excess cash flow to be used for shareholder returns to stay within the 70 percent threshold for the rest of the 2025-year, particularly given the uncertainty related to economic and industry conditions in light of weak commodity prices and global trade polices.
- The anticipated 2025 capital expenditure budget of $65 million and the anticipated portion to be spent on growth and to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations. The intention to allocate the additional $10 million approved by the Board in May 2025 towards growing the Corporation's RSS fleet and Real Time RSS Communications technology.
- The planned capital expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary.
- The expectation that that equipment on order as part of the capital commitments as at March 31, 2025 will be delivered within the second quarter of 2025.
- The potential material adverse effect on the Canadian and US economy, the Canadian and US oil and natural gas industry and the Corporation and its results that new tariffs (those already implemented and those that are currently paused, if they come into effect in the future), and any changes to these tariffs or imposition of any additional tariffs, taxes or import or export restrictions or prohibitions, could have.
- The anticipated effectiveness of the Corporation's supply chain and procurement strategies in helping to mitigate the impact of new and existing tariffs. Although the Corporation believes such strategies will somewhat mitigate the

impact of tariffs, if significant tariffs affecting the Corporation are implemented for a prolonged period their impact on the Corporation's operations and results may be material to the Corporation.

- The potential adverse affects on industry activity and the Corporation related to the persistence of weak commodity prices
- The expected and potentially fluctuating revenue from the Atlas sales division, due to the sporadic and cyclical nature of the customers' ordering frequency.
- The amount expected to be allocated towards replacing equipment lost downhole could increase, should more downhole equipment losses occur throughout the year.

The above are stated under the headings: "Financial Results", "Dividends and ROCS", "Normal Course Issuer Bid", "Capital Spending", "Segmented Information", "Liquidity", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Dividends and ROCS", "Global Trade and Supply Chain Update", "Cash Flow, Dividends, and ROCS", and "Outlook" sections of this MD&A may contain forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this MD&A and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, without limitation, that: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions and the accuracy of the Corporation's market outlook expectations for 2025 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation; that there will be no adverse tariff events including intentional tariff wars that could have a significant impact on the markets in which the Corporation operates; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the potential impact of trade wars, pandemics, the Russian-Ukrainian war, Middle-East conflict and other world events on the global economy, specifically trade, manufacturing, supply chain, inflation and energy consumption, among other things and the resulting impact on the Corporation's operations and future results which remain uncertain; exchange and interest rates, and inflationary pressures including the potential for further interest rate hikes by global central banks and the impact on financing charges and foreign exchange and the anticipated global economic response to concerted interest rate hikes; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

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

Condensed Consolidated Interim Statements of Financial Position

(Stated in thousands of dollars, unaudited)	**March 31, 2025**	December 31, 2024
ASSETS		
Current assets:		
Cash	**$ 13,971**	$ 14,163
Trade and other receivables	**148,814**	133,589
Inventories	**63,287**	63,135
Prepaid expenses	**1,597**	2,628
Current tax assets	**1,072**	502
Total current assets	**228,741**	214,017
Non-current assets:		
Drilling and other long-term assets (Note 6)	**175,683**	166,081
Right-of-use assets	**24,125**	24,943
Intangible assets	**17,627**	14,611
Investments	**2,171**	2,171
Other long-term assets	**1,697**	1,463
Total non-current assets	**221,303**	209,269
Total assets	**$ 450,044**	$ 423,286
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	**$ 125,180**	$ 116,668
Dividends payable (Note 8d)	**9,112**	9,102
Current lease liabilities	**3,820**	3,702
Total current liabilities	**138,112**	129,472
Non-current liabilities:		
Lease liabilities	**30,683**	31,650
Loans and borrowings (Note 7)	**26,145**	16,827
Deferred tax liabilities	**20,609**	19,792
Other (Note 8c)	**912**	3,340
Total non-current liabilities	**78,349**	71,609
Equity:		
Share capital (Note 8a)	**204,060**	203,841
Contributed surplus	**7,239**	7,189
Deficit	**(17,244)**	(28,291)
Accumulated other comprehensive income (AOCI)	**39,528**	39,466
Total equity	**233,583**	222,205
Total liabilities and equity	**$ 450,044**	$ 423,286

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

Condensed Consolidated Interim Statements of Comprehensive Earnings

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

	Three-month periods ended March 31,	
	2025	2024
Revenue (Note 4)	**$ 193,704**	$ 166,123
Direct costs	**153,415**	129,044
Gross profit	**40,289**	37,079
Expenses:		
Selling, general and administrative expenses	**19,130**	21,017
Research and development expenses	**1,780**	1,202
Finance expense	**606**	334
Finance expense lease liability	**506**	541
Other income (Note 9)	**(7,645)**	(8,757)
	14,377	14,337
Earnings before income taxes	**25,912**	22,742
Provision for income taxes		
Current	**4,907**	1,986
Deferred	**846**	3,302
	5,753	5,288
Net earnings	**20,159**	17,454
Other comprehensive income		
Foreign currency translation, net of tax	**62**	3,573
Total comprehensive earnings	**$ 20,221**	$ 21,027
Earnings per share – basic	**$ 0.44**	$ 0.37
Earnings per share – diluted	**$ 0.44**	$ 0.37

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

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

Three-month period ended March 31, 2025	**Share Capital Number**		**Share Capital Amount ($)**		**Contributed Surplus**		**Accumulated Other Comprehensive Income**		**Deficit**		**Total Equity**
Balance, December 31, 2024	**45,506,773**	**$**	**203,841**	**$**	**7,189**	**$**	**39,466**	**$**	**(28,291)**	**$**	**222,205**
Issuance of share capital on exercise of options	**50,000**		**180**		**-**		**-**		**-**		**180**
Share-based payments	**-**		**-**		**89**		**-**		**-**		**89**
Fair value of options exercised	**-**		**39**		**(39)**		**-**		**-**		**-**
Net earnings	**-**		**-**		**-**		**-**		**20,159**		**20,159**
Foreign currency translation, net of tax	**-**		**-**		**-**		**62**		**-**		**62**
Dividends	**-**		**-**		**-**		**-**		**(9,112)**		**(9,112)**
Balance, March 31, 2025	**45,556,773**	**$**	**204,060**	**$**	**7,239**	**$**	**39,528**	**$**	**(17,244)**	**$**	**233,583**

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

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

(Stated in thousands of dollars, unaudited)

	Three-month periods ended March 31, 2025	2024
Cash flows from operating activities:		
Earnings	$ 20,159	$ 17,454
Adjustments for:		
Depreciation and amortization	12,569	10,319
Depreciation and amortization right-of-use asset	888	849
Provision for income taxes	5,753	5,288
Unrealized foreign exchange loss	117	148
Net gain on disposition of drilling equipment (Note 6a)	(7,861)	(8,886)
Equity-settled share-based payments	89	100
Finance expense	606	334
Finance expense lease liability	506	541
Provision for inventory obsolescence	1,042	535
Interest paid on lease liability	(506)	(541)
Interest paid	(384)	(204)
Income taxes paid	(5,485)	(185)
Change in non-cash working capital	(16,574)	(14,585)
Net cash from operating activities	10,919	11,167
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	10,919	12,301
Acquisition of drilling and other equipment	(24,692)	(29,640)
Acquisition of intangible assets	(3,640)	-
Change in non-cash working capital	6,872	12,469
Net cash used in investing activities	(10,541)	(4,870)
Cash flows from financing activities:		
Net proceeds from (Net repayment of) loans and borrowings	9,269	(60)
Proceeds from exercise of options	180	712
Dividends paid to shareholders	(9,102)	(9,453)
Payments of lease liability	(920)	(830)
Net cash used in financing activities	(573)	(9,631)
Net decrease in cash	(195)	(3,334)
Cash, beginning of period	14,163	16,433
Effect of movements in exchange rates on cash held	3	281
Cash, end of period	$ 13,971	$ 13,380

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2025 and 2024

1. Reporting Entity

PHX Energy Services Corp. ("PHX Energy" or the "Corporation") is a publicly-traded Corporation listed on the Toronto Stock Exchange ("TSX") under the symbol "PHX". The Corporation's registered office is at Suite 1600, 215 – 9th Avenue SW Calgary, Alberta, Canada.

The Corporation, through its subsidiaries, provides horizontal and directional drilling services, rents performance drilling motors, and sells motor equipment and parts to oil and natural gas exploration and development companies in Canada, United States, and the Middle East regions. The Corporation also develops and manufactures technologies that are made available for internal operational use.

The condensed consolidated interim financial statements include the accounts of the Corporation and its wholly owned subsidiaries.

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended December 31, 2024.

The condensed consolidated interim financial statements were authorized by the Board of Directors (the "Board") on May 6, 2025.

b) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on a going concern basis using the historical cost basis except for liabilities for cash-settled share-based payment arrangements and investments, which are measured at fair value.

c) Use of Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS Accounting Standards as issued by the IASB requires management to make estimates and judgements that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the estimates and judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2024.

3. Material Accounting Policies

These condensed consolidated interim financial statements have been prepared utilizing the same material accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2024.

4. Revenue

The Corporation generates revenue primarily from providing directional drilling services to clients. Other sources of revenue include rental of performance drilling motors and sale of motor equipment and parts.

(Stated in thousands of dollars)

	Canada		United States		Total	
Three-month periods ended March 31,	**2025**	2024	**2025**	2024	**2025**	2024
Directional drilling services	**56,872**	51,652	**122,488**	103,406	**179,360**	155,058
Motor rental	**692**	321	**11,014**	7,925	**11,706**	8,246
Sale of motor equipment and parts	**-**	-	**2,638**	2,819	**2,638**	2,819
Total revenue	**57,564**	51,973	**136,140**	114,150	**193,704**	166,123

5. Operating Segments

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

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		Corporate		Total	
Three-month periods ended March 31,	**2025**	2024	**2025**	2024	**2025**	2024	**2025**	2024
Revenue	**57,564**	51,973	**136,140**	114,150	**-**	-	**193,704**	166,123
Direct costs	**44,119**	40,240	**109,296**	88,804	**-**	-	**153,415**	129,044
Gross profit	**13,445**	11,733	**26,844**	25,346	**-**	-	**40,289**	37,079
Expenses:								
Selling, general and administrative expenses	**4,197**	4,136	**7,837**	7,675	**7,096**	9,206	**19,130**	21,017
Research and development expenses	**-**	-	**-**	-	**1,780**	1,202	**1,780**	1,202
Finance expense	**-**	-	**-**	-	**606**	334	**606**	334
Finance expense lease liability	**290**	303	**195**	218	**21**	20	**506**	541
Other income	**(3,001)**	(2,125)	**(4,644)**	(6,632)	**-**	-	**(7,645)**	(8,757)
Reportable segment profit (loss) before income taxes	**11,959**	9,419	**23,456**	24,085	**(9,503)**	(10,762)	**25,912**	22,742

(Stated in thousands of dollars)

	Canada		United States		Corporate		Total	
As at March 31,	**2025**	2024	**2025**	2024	**2025**	2024	**2025**	2024
Acquisition of drilling and other equipment	**8,958**	8,742	**15,734**	20,898	**-**	-	**24,692**	29,640
Segment non-current assets	**73,653**	66,318	**145,479**	125,429	**2,171**	3,000	**221,303**	194,747
Total Assets	**153,032**	143,407	**294,978**	257,085	**2,034**	2,908	**450,044**	403,400

6. Drilling and Other Long-Term Assets

a) Acquisitions and Disposals

During the three-month period ended March 31, 2025, the Corporation acquired assets with a cost of $24.7 million (2024 - $29.6 million).

Assets with a carrying amount of $3.1 million (2024 - $3.4 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $7.9 million (2024 - $8.9 million), which is included in other income (see Note 9) in the condensed consolidated interim statement of comprehensive income.

b) Capital Commitments

As at March 31, 2025, the Corporation has entered into commitments to purchase drilling and other equipment for $33.2 million (2024 - $21.8 million); delivery is expected to occur within the second quarter of 2025.

7. Loans and Borrowings

a) Terms and Covenants

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at March 31, 2025**	Currency	Carrying Amount at December 31, 2024
Operating Facility	CAD	15,000	December 12, 2026	CAD	-	CAD	1,354
Syndicated Facility	CAD	80,000	December 12, 2026	CAD	23,268	CAD	9,719
Total CAD Facility	CAD	**95,000**		CAD	**23,268**	CAD	11,073
US Operating Facility	USD	20,000	December 12, 2026	USD	2,000	USD	4,000
Total USD Facility	USD	**20,000**		USD	**2,000**	USD	4,000

The carrying amount of loans and borrowings is presented net of borrowing costs amounting to $0.2 million at March 31, 2025. Under the syndicated credit agreement, the Corporation is required to maintain certain financial covenants. As at March 31, 2025 the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at March 31, 2025**
Debt to covenant EBITDA[i]	<3.0x	**0.21**
Interest coverage ratio[i]	>3.0x	**55.74**

[i] Definitions for these terms are included in the credit agreement filed on SEDAR

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

The facilities bear interest based primarily on the Corporation's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined in the credit agreement. Interest on the operating facility is at the bank's prime rate plus one percent. Interest on the syndicated facility is at the Canadian Overnight Repo Rate Average ("CORRA") plus two percent.

As at March 31, 2025 the Corporation has CAD $71.5 million and USD $18 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

8. Share Capital

a) Authorized and Issued Shares

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

(Stated in thousands of dollars except common shares outstanding)

	Number		Amount
Balance as at January 1, 2024	47,260,472	$	222,653
Common shares repurchased and cancelled	(2,141,232)		(20,614)
Issued shares pursuant to share option plan	387,533		1,802
Balance as at December 31, 2024	45,506,773	$	203,841
Issued shares pursuant to share option plan	**50,000**		**219**
Balance as at March 31, 2025	**45,556,773**	**$**	**204,060**

b) Share Option Program (Equity-Settled)

PHX Energy has a share option program that entitles key management personnel and other employees to purchase common shares in the Corporation. Grants under the plan vest as to one-third 6 months from the grant date, one-third 18 months from grant date and one-third 30 months from grant date. In accordance with these programs, options are exercisable using the five-day weighted-average trading price of the common shares ending immediately prior to the date of grant, or in the case of a US option holder, the trading price of the common shares ending immediately prior to the date of grant. The options have a term of five years.

<u>Summary of option grants in 2025</u>

Number	Exercise Price		Expiration Date	Fair Value	
150,000	$	8.71	March 6, 2030	$	1.19
150,000		8.53	March 6, 2030		1.22
300,000					

The Corporation values all of its share options using the Black-Scholes model. The Corporation's determination of fair value of options on the date of grant is affected by the Corporation's share price as well as assumptions regarding a number of variables. For the options granted during 2025 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 38 percent, forfeiture rate of nil, dividend yield of 9.37 percent and a risk-free interest rate of 2.58 percent (2024 – expected share price volatility 41 percent, forfeiture rate of nil, dividend yield of 8.66 percent and a risk-free interest rate of 4.13 percent). The amounts computed according to the Black-Scholes model method may not be indicative of the actual values realized upon the exercise of these options by the holders.

For the three-month period ended March 31, 2025 the Corporation recognized a total compensation expense of $0.1 million (2024 - $0.1 million) for share options granted between 2023 and 2025 (2024 – share options granted between 2022 and 2024).

A summary of the status of the plan as at March 31, 2025 is presented below:

	March 31, 2025		December 31, 2024	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**881,667**	**$ 6.75**	994,200	$ 4.80
Granted	**300,000**	**8.62**	275,000	9.20
Exercised	**(50,000)**	**2.19**	(387,533)	3.47
Outstanding, end of period	**1,131,667**	**$ 7.45**	881,667	$ 6.75
Options exercisable, end of period	**564,995**	**$ 6.19**	614,995	$ 5.87

The weighted-average share price at the date of exercise for share options exercised for the three-month period ended March 31, 2025 was $8.68 (2024 - $8.80).

The range of exercise prices for options outstanding at March 31, 2025 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
100,000	0.93 yrs	$ 2.74	100,000	$ 2.74
40,000	0.93 yrs	2.64	40,000	2.64
150,000	1.93 yrs	6.08	150,000	6.08
50,000	1.93 yrs	6.16	50,000	6.16
150,000	2.94 yrs	7.96	99,999	7.96
66,667	2.94 yrs	7.83	33,333	7.83
150,000	3.94 yrs	9.17	49,998	9.17
125,000	3.94 yrs	9.23	41,665	9.23
150,000	4.93 yrs	8.71	-	8.71
150,000	4.93 yrs	8.53	-	8.53
1,131,667	3.28 yrs	$ 7.45	564,995	$ 6.19

c) Retention Award Plan (Cash-Settled)

The retention award plan ("RAP") has two types of awards: Restricted Awards ("RAs") and Performance Awards ("PAs") and results in eligible participants, as approved by the Board, receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. The Corporation accounts for its retention award plan as cash-settled share-based compensation.

RAs vest evenly over a period of three-years. Upon vesting and subsequent exercise, the holder is entitled to receive a cash payment or common shares based on the fair value of the underlying shares determined using the five-day weighted-average trading price of the shares ending immediately prior to the exercise date plus accrued re-invested dividends.

PAs vesting and subsequent exercise is similar to RAs, except a payout multiplier is applied to the final payout. The payout multiplier is linked solely to total shareholder return on the Corporation's common shares relative to returns on securities of members of the Corporation's peer comparison group over the applicable vesting period and can range from a payout of zero percent to 200 percent. For the three-month period ended March 31, 2025, 297,130 PAs were granted (2024 – 236,112), 617,693 PAs settled at a weighted-average payout multiplier of 141 percent (2024 – 1,051,655 PAs settled at a weighted-average payout multiplier of 155 percent), and no PAs were forfeited (2024 – nil). As at March 31, 2025, 574,702 PAs were outstanding (2024 –577,012).

The Corporation recorded a total of $2.7 million compensation expense relating to these plans for the three-month period ended March 31, 2025 (2024 – $5.7 million). The expense is included in selling, general and administrative expense and has a corresponding liability of $3.6 million in trade and other payables for the current portion and $0.9 million included in other liabilities for the long-term portion which had vesting dates after March 31, 2026 (2024 - $5.1

million and $1.1 million). There were 1,326,596 RAs and PAs outstanding as at March 31, 2025 (2024 – 1,527,685). The closing share price on March 31, 2025 of PHX stock was $8.86.

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

	March 31, 2025	December 31, 2024
RAs and PAs outstanding, beginning of period	**1,599,094**	2,160,151
Granted	**586,663**	583,543
Settled	**(842,751)**	(1,141,980)
Forfeited	**(16,410)**	(2,620)
RAs and PAs outstanding, end of period	**1,326,596**	1,599,094

d) Dividends

On March 14, 2025, the Corporation declared a dividend of $0.20 per share or $9.1 million, payable on April 15, 2025, to shareholders of record on March 31, 2025.

e) Normal Course Issuer Bid ("NCIB")

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

Pursuant to the current NCIB, no common shares were purchased by the Corporation and cancelled in the three-month period ended March 31, 2025.

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended March 31,	
	2025	2024
Net gain on disposition of drilling equipment (Note 6a)	**$ 7,861**	$ 8,886
Foreign exchange loss	**(216)**	(129)
	$ 7,645	$ 8,757

10. Fair Values of Financial Instruments

The Corporation has designated its trade and other payables, dividends payable, and loans and borrowings as non-derivative financial liabilities carried at amortized cost. Trade and other receivables are designated as non-derivative financial assets measured at amortized cost. The Corporation's carrying values of these items, excluding loans and borrowings, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings bears interest at a floating market rate indicative of current spreads and accordingly the fair value approximates the carrying value.

Equity investments in a company are designated as non-derivative financial assets measured at FVOCI as the investment is not held-for-trading and fair value changes are not reflective of the Corporation's operations. The investment asset is carried at fair value on the consolidated statement of financial position. Fair value is considered level three under the fair value hierarchy and requires management to assess information available, which may include private placements, available financial statement information and other available market data.

11. Global Trade and Supply Chain Risk Update

Since coming into office in January this year, the US Administration has announced and implemented various tariffs against Canada and other nations, including China. The effective dates of some of these new tariffs have been postponed and some of the new tariffs have come into effect briefly, before being subsequently paused. In response to the new US tariffs, the Canadian government as well as the governments of other nations have announced and/or implemented retaliatory tariffs. These new tariffs and any changes to these tariffs or imposition of any additional tariffs, taxes or import or export restrictions or prohibitions, could have material impacts on global economies, the Canadian and US oil and natural gas industries, interest and inflation rates and the Corporation's supply chains. The resulting higher levels of volatility and uncertainty could result in actual results being different from management's current estimates and those differences could be material.

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Karen David-Green

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
Executive Board Chair

Michael Buker
President & CEO

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Chief Technology Officer

Jeffery Shafer
Chief Operating Officer

Garrett Wright
Phoenix Technology Services USA Inc.
Vice President US Operations

David Raines
Phoenix Technology Services USA Inc.
Vice President US Sales & Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

Royal Bank of Canada
HSBC USA N.A.

Transfer Agent

Odyssey Trust Company
Calgary, Alberta