



PRESS RELEASE
November 4, 2020
TSX – PHX
Calgary, Alberta

PHX Energy Announces Its Operating and Financial Results for the Third Quarter of 2020

Financial Results

In the third quarter of 2020, despite the ongoing challenges presented by the COVID-19 pandemic, the Corporation continued to achieve positive adjusted EBITDA. For the three-month period ended September 30, 2020, PHX Energy realized adjusted EBITDA of \$7.5 million (19 percent of revenue) as compared to \$15.5 million (17 percent of revenue) in the third quarter of 2019. Adjusted EBITDA in the 2020-quarter includes a \$1.6 million recovery of bad debts and \$1.3 million in government grants earned as part of the Canada Emergency Wage Subsidy (“CEWS”) program.

For the three-month period ended September 30, 2020, due to the prolonged reduction in global industry activity, the Corporation’s consolidated revenue decreased to the lowest level of quarterly revenue since the third quarter of 2016. Consolidated revenue in the 2020-quarter was \$39.8 million, a decline of 57 percent from the \$93.1 million in the corresponding 2019-quarter. In the third quarter of 2020, consolidated operating days decreased by 60 percent to 2,650, as compared to the 6,629 days in the 2019-quarter. Average consolidated revenue per day, excluding the motor rental division in the US, was \$14,503, an 8 percent increase as compared to the 2019-quarter’s average of \$13,434.

During the third quarter of 2020, the Corporation’s US activity continued to be impacted by the industry downturn that led the rig count to all-time lows. Despite the weak environment, the Corporation was resilient to this and experienced a smaller decline relative to the overall US market evidencing the positive reputation and capabilities of PHX Energy’s high performance technology fleet. The US rig count fell 72 percent from 920 average rigs running per day in the third quarter of 2019 to 254 rigs in the 2020-quarter (Source: Baker Hughes). Whereas PHX Energy’s US operating days declined by 55 percent in the third quarter of 2020 to 1,747 from 3,850 in the 2019-quarter and US segment revenue decreased 56 percent to \$30.3 million from \$68.3 million in the corresponding 2019-quarter. The US division’s revenue in the 2020-quarter represented 76 percent of consolidated revenue.

The ongoing challenges and uncertainty in the Canadian industry persisted in the third quarter with activity levels falling to multi-decade lows. The rig count dropped 64 percent quarter-over-quarter with an average of 47 active rigs operating per day in the third quarter of 2020 (2019 - 132) (Source: Baker Hughes). In parallel to the industry activity, the Canadian segment’s third quarter revenue declined by 63 percent in 2020 to \$7 million relative to \$19.1 million in the same 2019-quarter.

The Corporation continued to maintain a strong balance sheet position, and as at September 30, 2020 had a cash and cash equivalents balance of \$18.9 million with no bank loans and borrowings outstanding. For the three-month period ended September 30, 2020, the Corporation’s free cash flow decreased to \$2.5 million as compared to \$11.6 million realized in the corresponding 2019-quarter (see “Non-GAAP Measures”).

Responding to COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus or COVID-19 a global pandemic and the Corporation adopted heightened safety protocols as a result of COVID-19. At present, the Corporation's business is considered essential in Canada and the US given the important role that PHX Energy's activities play in delivering oil and natural gas to North American markets. The Corporation anticipates that changes to work practices and other restrictions put in place by governments and health authorities in response to COVID-19 will continue to have an impact on business activities going forward.

COVID-19 has had a significant impact on the global economy and has resulted in a substantial weakening of global oil prices and global oil demand. The Corporation continued to experience reduced drilling activity in the third quarter of 2020 due to the prevailing economic and industry conditions driven by COVID-19. There are many variables and uncertainties regarding COVID-19, including the duration and magnitude of the disruption in the oil and natural gas industry. As such, it is not possible to precisely estimate the impact of the COVID-19 pandemic on the Corporation's financial condition and operations. Management has been proactive in mitigating these risks, aligning costs with projected revenues and protecting profit margins. Management restructured its business costs, primarily during the second quarter, in line with decreasing drilling activity in North America, which included the unfortunate necessity to decrease the size of its workforce as well as actions to lower labour rates, reduce rental costs, and maximize discounts and efficiencies within the supply chain. The Corporation continues to monitor, evaluate and adjust its business costs in line with drilling activity in North America and will continue to implement changes as required. In addition, the Corporation will continue to utilize various government assistance programs available for businesses in North America.

The Corporation has remained diligent in protecting its balance sheet and retains financial flexibility with significant liquidity on its credit facilities and no bank loans and borrowings outstanding at the end of the 2020-quarter. As at September 30, 2020, the Corporation has working capital of \$56.4 million and has approximately CAD \$65 million and USD \$15 million available from its credit facilities, subject to a borrowing base limit of \$67 million. The Corporation has minimized new capital expenditures wherever it is prudent to do so. Additional information regarding the risks, uncertainties and impact on the Corporation's business can be found throughout this press release, including under the headings "Capital Spending", "Operating Costs and Expenses", and "Outlook".

Capital Spending

For the three-month period ended September 30, 2020, the Corporation spent \$1.8 million in capital expenditures, which was lower when compared to the \$8.4 million spent in the same 2019-quarter. Due to COVID-19's impact on rig counts in North America, the Corporation significantly reduced new capital expenditures at the beginning of the second quarter of 2020. Capital expenditures in the third quarter of 2020 were primarily directed towards Velocity Real Time Systems ("Velocity") and Atlas High Performance ("Atlas") Motors. For the nine-month period ended September 30, 2020, the Corporation spent \$22.2 million in capital expenditures (2019 - \$28.8 million), which were primarily directed towards Atlas motors, PowerDrive Orbit Rotary Steerable Systems ("RSS"), and Velocity. Of the total capital expenditures in the 2020-period, \$16.8 million was spent growing

the Corporation's fleet of drilling equipment and the remaining \$5.4 million was spent on maintenance of the current fleet of drilling and other equipment.

As at September 30, 2020, the Corporation has capital commitments to purchase drilling and other equipment for \$3.5 million, majority of which is maintenance capital, and which includes \$3 million for Velocity systems, \$0.3 million for performance drilling motors, and \$0.2 million for other equipment.

In 2020, the Corporation expects to spend \$27.5 million in capital expenditures as compared to the previously forecasted \$30 million.

Capital expenditures since 2015 have primarily been dedicated toward expanding and growing the capacity of the high performance fleets. In addition to the Corporation's fleet of conventional measurement while drilling ("MWD") systems and drilling motors, the Corporation possesses 350 Atlas motors, comprised of various configurations including its 7.25", 5.13", 5.76", 8" and 9" Atlas motors, 77 Velocity systems, and 18 PowerDrive Orbit RSS, the largest independent fleet in North America.

Normal Course Issuer Bid

During the third quarter of 2020, the Toronto Stock Exchange ("TSX") approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,131,388 common shares, representing 10 percent of the Corporation's public float of Common Shares as at July 31, 2020. The NCIB commenced on August 14, 2020 and will terminate on August 13, 2021. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the current NCIB, in the three-month period ended September 30, 2020, 2,270,600 common shares were purchased by the Corporation and cancelled.

Financial Highlights

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Operating Results	<i>(unaudited)</i>	<i>(unaudited)</i>		<i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue	39,776	93,099	(57)	189,564	268,204	(29)
Net income (loss)	(1,505)	2,594	n.m.	(9,725)	(494)	n.m.
Earnings (loss) per share – diluted	(0.03)	0.05	n.m.	(0.18)	(0.01)	n.m.
Adjusted EBITDA ⁽¹⁾	7,469	15,536	(52)	31,462	37,961	(17)
Adjusted EBITDA per share – diluted ⁽¹⁾	0.14	0.27	(48)	0.59	0.66	(11)
Adjusted EBITDA as a percentage of revenue ⁽¹⁾	19%	17%		17%	14%	
Cash Flow						
Cash flows from operating activities	9,400	9,721	(3)	57,781	40,665	42
Funds from operations ⁽¹⁾	5,481	14,669	(63)	29,429	34,554	(15)
Funds from operations per share – diluted ⁽¹⁾	0.10	0.26	(62)	0.55	0.60	(8)
Capital expenditures	1,816	8,444	(78)	22,245	28,840	(23)
Free cash flow ⁽¹⁾	2,544	11,569	(78)	19,883	22,326	(11)
Financial Position (unaudited)				Sep 30, '20	Dec 31, '19	
Working capital				56,416	68,393	(18)
Net debt ⁽¹⁾⁽²⁾				(18,889)	14,710	n.m.
Shareholders' equity				135,497	148,944	(9)
Common shares outstanding				50,980,820	53,246,420	(4)

n.m. – not meaningful

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to non-GAAP measures section that follows the Outlook section of this press release.

⁽²⁾ As at September 30, 2020, the Corporation had no bank loans and borrowing outstanding and was in a cash positive position.

Non-GAAP Measures

PHX Energy uses throughout this press release certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles (“GAAP”). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA per share, debt to covenant EBITDA, funds from operations, funds from operations per share, free cash flow, net debt and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation’s operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy’s performance. The Corporation’s method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the “Non-GAAP Measures” section following the Outlook section of this press release for applicable definitions and reconciliations.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

In particular, forward-looking information and statements contained in this document include, without limitation, the timeline for delivery of equipment on order, the projected capital expenditures budget for the 2020-year and how this budget will be allocated and funded, and the anticipated impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto.

The above are stated under the headings: "Capital Spending", "Responding to COVID-19" and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Responding to COVID-19" and "Outlook" in this document contains forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this press release and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the continuing impact of COVID-19 on the global economy, specifically trade, manufacturing, supply chain and energy consumption, among other things and the resulting impact on the Corporation's operations and future results which remain uncertain; exchange and interest rates; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain and maintain financing on acceptable terms to fund its ongoing operations and planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although Management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

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

Revenue

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue	39,776	93,099	(57)	189,564	268,204	(29)

Industry activity across all of the Corporation's operating segments remained weak as depressed oil prices and the impact of COVID-19 carried through the third quarter of 2020. For the three-month period ended September 30, 2020, consolidated revenue was \$39.8 million as compared to \$93.1 million in the third quarter of 2019, a decrease of 57 percent. US revenue as a percentage of total consolidated revenue remained steady at 76 percent for the 2020-quarter compared to 73 percent in 2019. Consolidated operating days decreased 60 percent to 2,650 days as compared to 6,629 days in the 2019-quarter. PHX Energy's average revenue per day, excluding the motor rental division in the US, increased from \$13,434 in the 2019-quarter to \$14,503 in the relative 2020-period.

During the third quarter of 2020, Western Texas Intermediate ("WTI") spot crude oil price and Western Canadian Select ("WCS") oil prices were 27 percent lower than in the 2019-quarter. WTI averaged USD \$41/bbl (2019 quarter – USD \$56/bbl) and WCS oil prices averaged USD \$32/bbl (2019 – USD \$44/bbl). Due to pressure on the oil prices, Canadian and US rig counts declined quarter-over-quarter, with the US operating an average of 254 rigs per day in the third quarter as compared to 920 rigs per day in the 2019-period, and Canada operating an average of 47 rigs per day as compared to 130 rigs per day in the 2019-period. Throughout North America the vast majority of the wells continued to be dominated by horizontal and directional drilling which represented 95 percent of drilling activity in the third quarter of 2020. (Source: Daily Oil Bulletin and Baker Hughes).

For the nine-month period ended September 30, 2020, the Corporation's consolidated revenue decreased by 29 percent to \$189.6 million compared to \$268.2 million in the 2019-period. There were 12,881 consolidated operating days in the nine-month period ended September 30, 2020, which is 33 percent lower than the 19,221 days reported in the 2019-period. Excluding the motor rental division in the US, the average consolidated revenue per day for the 2020 nine-month period was \$14,104, an increase of 6 percent compared to the average of \$13,290 in the 2019-period.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Direct costs	35,607	77,090	(54)	163,837	228,141	(28)
Gross profit as a percentage of revenue	10%	17%		14%	15%	
Depreciation & amortization drilling and other equipment (included in direct costs)	6,977	9,894	(29)	22,794	30,178	(24)
Depreciation & amortization right-of-use asset (included in direct costs)	861	896	(4)	2,723	2,641	3
Gross profit as percentage of revenue excluding depreciation & amortization	30%	29%		27%	27%	

Direct costs are comprised of field and shop expenses and include depreciation and amortization on the Corporation's equipment and right-of-use assets. For the three and nine-month periods ended September 30, 2020, direct costs decreased by 54 percent and 28 percent, respectively. In both 2020-periods, the Corporation incurred lower labour costs, less equipment repair expenses and fewer equipment rentals primarily due to decreased activity levels in all operating regions.

For the three and nine-month periods ended September 30, 2020, gross profit as a percentage of revenue, excluding depreciation and amortization, was 30 percent and 27 percent, respectively, which are the same levels as in the corresponding 2019-periods. Despite reduced activity, profitability was sustained as a result of Management's efforts to align the cost structure as well as continued close monitoring of expenses.

For the three and nine-month periods ended September 30, 2020, the Corporation's depreciation and amortization on drilling and other equipment decreased by 29 percent and 24 percent, respectively. In line with the 2020 capital expenditure program, the decrease in depreciation and amortization of drilling and other equipment in the respective periods is mainly due to slower replacement of fully depreciated fixed assets.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
SG&A costs	6,204	10,616	(42)	20,537	35,212	(42)
Cash-settled share-based payments (included in SG&A costs)	888	1,078	(18)	(1,149)	5,108	(122)
Equity-settled share-based payments (included in SG&A costs)	66	160	(59)	214	559	(62)
SG&A costs excluding equity and cash-settled share-based payments and provision for onerous contracts as a percentage of revenue	13%	10%		11%	11%	

For the three and nine-month periods ended September 30, 2020, SG&A costs were \$6.2 million and \$20.5 million, respectively, as compared to \$10.6 million and \$35.2 million in the corresponding 2019-periods. The decrease in SG&A costs in both periods mainly relates to the lower number of personnel required to support reduced drilling activity and the decline in

cash-settled share-based payments, particularly in the 2020 nine-month period. In addition, reduced SG&A costs also resulted from initiatives carried out to restrict costs which included tightened policies on travel, entertainment, and marketing related costs.

Cash-settled share-based payments relate to the Corporation's Retention Award Plan and are measured at fair value. For the three-month period ended September 30, 2020, cash-settled share-based payments decreased by 18 percent to \$0.9 million from \$1.1 million in the 2019-quarter. For the nine-month period ended September 30, 2020, cash-settled share-based payments decreased by 122 percent to a recovery of \$1.1 million from an expense of \$5.1 million in the same 2019-period. Changes in cash-settled share-based payments in the respective periods are mainly attributable to fluctuations in the Corporation's share price period-over-period.

Equity-settled share-based payments relate to the amortization of the fair values of issued options by the Corporation using the Black-Scholes model. For the three and nine-month periods ended September 30, 2020, equity-settled share-based payments decreased by 59 percent and 62 percent, respectively, as compared to the corresponding 2019-periods, generally due to stock option grants from prior years fully vesting in 2019 and 2020-years.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Research & development expense	216	1,193	(82)	1,796	2,973	(40)

Research and development ("R&D") expenditures for the three and nine-month periods ended September 30, 2020 were \$0.2 million (2019 - \$1.2 million) and \$1.8 million (2019 - \$3 million), respectively. The decrease in R&D costs primarily relate to lower personnel costs resulting from certain R&D initiatives being scaled down in response to cost reduction measures taken by Management.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Finance expense	133	306	(57)	661	1,090	(39)
Finance expense lease liability	573	622	(8)	1,799	1,897	(5)

Finance expenses relate to interest charges on the Corporation's long-term and short-term bank facilities. For the three and nine-month periods ended September 30, 2020, finance charges decreased to \$0.1 million (2019 - \$0.3 million) and \$0.7 million (2019 - \$1.1 million), respectively. In the second quarter of 2020, the Corporation paid down all bank loans and borrowings outstanding and over the course of the third quarter of 2020, maintained minimal levels of borrowing, resulting in decreased interest charges in the respective 2020 periods.

Finance expense lease liability relates to interest expenses incurred on lease liabilities. For the three and nine-month periods ended September 30, 2020, finance expense lease liability decreased by 8 percent and 5 percent, respectively, reflecting the reduction in lease liabilities as lease obligations are fulfilled.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2020	2019	2020	2019
Net gain on disposition of drilling equipment	(136)	(514)	(2,545)	(3,390)
Foreign exchange losses (gains)	226	44	(3)	557
Provision for (Recovery of) bad debts	(1,608)	62	2,344	388
Other income	(1,518)	(408)	(204)	(2,445)

Net gain on disposition of drilling equipment is comprised of gains on disposition of drilling equipment that typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. For the three and nine-month periods ended September 30, 2020, the Corporation recognized gain on dispositions of \$0.1 million and \$2.5 million, respectively, compared to the \$0.5 million and \$3.4 million gain on dispositions realized in the respective 2019-periods. In both 2020-periods, the Corporation had fewer occurrences of downhole equipment losses resulting in lower net gain on disposition of drilling equipment.

Foreign exchange gains and losses relate to unrealized and realized exchange fluctuations in the period. For the three and nine-month periods ended September 30, 2020, the Corporation recognized foreign exchange losses of \$0.2 million and foreign exchange gains of \$3 thousand, respectively, relative to foreign exchange losses of \$44 thousand and \$0.6 million in the corresponding 2019-periods. The foreign exchange losses in the 2020-quarter primarily relate to the settlement of CAD-denominated intercompany payable in the US segment.

For the nine-month period ended September 30, 2020, the provision for bad debts was \$2.3 million compared to \$0.4 million in the 2019 nine-month period. The higher amount in 2020 resulted from provisions recognized in the first quarter of the year. Greater provisions in 2020 reflect increased credit risks of the Corporation's customers that stemmed primarily from the global impacts of COVID-19. During the third quarter of 2020, PHX Energy recognized a bad debt recovery of \$1.6 million relating to certain receivables in the international segment.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Impairment loss	-	-	n.m.	10,730	-	n.m.

n.m. – not meaningful

For the nine-month period ended September 30, 2020, the Corporation recognized \$10.7 million in impairment losses (2019 - nil). In the first quarter of 2020, due to COVID-19 and the decline in global oil and natural gas prices, the Corporation determined that indicators of impairment existed in its Canadian, US, and International segments. Goodwill that was allocated to PHX Energy's Canadian segment was tested for impairment, and as a result, the Corporation recognized an impairment expense of \$8.9 million equivalent to the full amount of goodwill. The Corporation also determined no further economic benefits are expected from the future use or future disposal of Stream's EDR equipment. The Corporation has substantially closed all of its operations in Stream.

As a result, EDR equipment with a carrying amount of \$1.2 million was derecognized, as well as working capital of \$0.1 million. In the second quarter of 2020, additional international EDR equipment and inventory of \$0.5 million were identified as impaired and derecognized. As at September 30, 2020, management determined no indicators of impairment exist, from the time when impairment testing was last completed.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2020	2019	2020	2019
Provision for (Recovery of) income taxes	66	1,086	133	1,830
Effective tax rates	n.m.	n.m.	n.m.	n.m.

n.m. – not meaningful

Provisions for income taxes for the three and nine-month periods ended September 30, 2020 were \$66 thousand and \$0.1 million, respectively, as compared to \$1.1 million and \$1.8 million in the respective 2019-periods. Deferred taxes in the 2020 and 2019-periods were impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdictions. Lower provisions in both 2020-periods was mainly due to decreased profits in the Corporation's operating regions.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue	7,044	19,123	(63)	36,210	54,651	(34)
Reportable segment profit (loss) before tax	(328)	(77)	n.m.	95	(4,328)	n.m.

n.m. – not meaningful

For the three and nine-month periods ended September 30, 2020, the Corporation's Canadian revenue was \$7 million and \$36.2 million, respectively, in comparison to revenue of \$19.1 million and \$54.7 million in the corresponding 2019-periods, a decrease of 63 percent and 34 percent, respectively. The decrease in PHX Energy's Canada segment revenue was mainly due to lower industry drilling activity. For the three-month period ended September 30, 2020, the Corporation's Canadian operating days declined 65 percent to 721 operating days, compared to 2,056 days in the relative 2019-quarter. The decline in the Canadian segment's activity was consistent with the decline in industry activity. The industry's horizontal and directional drilling activity contracted 70 percent as measured by drilling days shrinking from 12,109 days in the 2019-quarter to 3,649 days in the 2020-quarter (Source: Daily Oil Bulletin). For the nine-month period ended September 30, 2020, operating days

declined 36 percent to 3,774 days, compared to 5,890 days in the same 2019-period. The Canadian industry activity decreased 35 percent to 22,183 horizontal and directional drilling days reported in the nine-month period of 2020 as compared to 33,955 horizontal and directional drilling days in 2019 (Sources: Daily Oil Bulletin).

During the third quarter of 2020, the Corporation remained active in the Montney and Duvernay.

Despite the decline in revenue in the 2020-periods, reportable segment loss in the third quarter of 2020 was minimized to \$0.3 million and in the 2020 nine-month period, reportable segment income of \$0.1 million was realized compared to a loss of \$4.3 million in the corresponding 2019-period. The increase in profitability in the 2020 nine-month period is mainly attributable to lower depreciation, less equipment repair costs, and grants earned from the CEWS program of \$2.1 million.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue	30,337	68,265	(56)	143,074	198,399	(28)
Reportable segment income before tax	678	6,623	(90)	9,835	15,746	(38)

PHX Energy's US operations continued to gain market share and remain profitable in a quarter when the industry hit its lowest activity level in history. In the third quarter of 2020, revenue from PHX Energy's US operations decreased by 56 percent to \$30.3 million from \$68.3 million in the 2019-quarter. The US division's revenue represented 76 percent of consolidated revenue in the third quarter of 2020 (2019 - 73 percent). Lower revenue in the 2020-quarter mainly resulted from the significantly reduced industry rig count. The US industry rig count for the third quarter of 2020 saw horizontal and directional rigs running per day decrease by 72 percent from an average of 920 horizontal and directional drilling rigs running per day during the 2019-quarter to 254 in the 2020-quarter. (Source: Baker Hughes). In comparison, the Corporation's US activity only declined 55 percent in this challenging environment, decreasing from 3,850 operating days in the 2019-quarter to 1,747 in the 2020-quarter. During the third quarter of 2020, Phoenix USA remained active in the Permian, Granite Wash, SCOOP/STACK, Marcellus, Bakken and Niobrara basins.

For the three-month period ended September 30, 2020, average revenue per day, excluding the Corporation's US motor rental division, decreased 3 percent to \$16,597 relative to \$17,032 in the corresponding 2019-quarter. Reportable segment income decreased from \$6.6 million in the 2019-quarter to \$0.7 million in the third quarter of 2020. This reduced profitability primarily resulted from the drop in activity in the US.

For the nine-month period ended September 30, 2020, Phoenix USA's revenue declined to \$143.1 million, a decrease of 28 percent compared to the \$198.4 million recognized in the 2019-period. Operating days for the nine-month period ended September 30, 2020 declined by 31 percent to 7,946 days as compared to 11,502 days in the same 2019-period. PHX Energy's operations showed resilience to the industry downturn as the Corporation's activity decline was not as sharp as the industry's and Phoenix USA gained market share. US industry activity, as measured by the average number of horizontal and directional

rigs running on a daily basis, fell 49 percent from 930 rigs in the corresponding 2019 period to an average of 477 rigs in the comparable 2020-period (Source: Baker Hughes).

For the nine-month period ended September 30, 2020, Phoenix USA's average revenue per day, excluding the Corporation's motor rental division, was \$17,139, which is 4 percent higher than the \$16,465 in the 2019-period. The increase in average revenue per day was mainly realized in the first quarter of 2020 and was primarily a result of increased utilization of the Corporation's high performance technologies. For the nine-month period ended September 30, 2020, despite lower revenues, PHX Energy's US division realized reportable segment income of \$9.8 million (2019 – \$15.7 million). The strong volume of activity and profitability in the first quarter of 2020 and lower depreciation expense greatly contributed to this result.

International

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenue	2,395	5,711	(58)	10,280	15,154	(32)
Reportable segment income (loss) before tax	(1,464)	304	n.m.	(1,447)	369	n.m.

n.m. – not meaningful

For the three-month period ended September 30, 2020, the International segment's revenue was \$2.4 million, a 58 percent decrease from the \$5.7 million in the 2019-quarter. PHX Energy generated 6 percent of its consolidated revenue from its International operations in the 2020-quarter which is the same percentage as in the third quarter of 2019. For the nine-month period ended September 30, 2020, the International segment's revenue was \$10.3 million, a 32 percent decrease compared to \$15.2 million in the same 2019-period. The decrease in revenue in both 2020-periods is mainly a result of Albanian operations being suspended since the first quarter of 2020.

For the three-month period ended September 30, 2020, the Russian division's revenue was 23 percent lower compared to the 2019-quarter. The division had fewer operating days in the 2020-quarter, generating 183 days compared to 455 in the 2019-quarter. The decrease in activity was partially offset by an improvement in MWD rental revenue.

For the three and nine-month periods ended September 30, 2020, the International segment recognized reportable segment losses of \$1.5 million and \$1.4 million, respectively, compared to reportable segment income in 2019 of \$0.3 million and \$0.4 million, respectively. Lower margins in both 2020-periods were mainly due to suspended operations in Albania.

Investing Activities

Net cash used in investing activities for the three-month period ended September 30, 2020 was \$1.3 million as compared to \$4.4 million in 2019. In the third quarter of 2020, PHX Energy added \$1.8 million in drilling and other equipment (2019 - \$8.4 million) and received proceeds from involuntary disposal of drilling equipment in well bores of \$0.8 million (2019 - \$5.8 million).

The expenditures in the 2020-quarter included:

- \$1.7 million in MWD systems and spare components; and
- \$0.1 million in downhole performance drilling motors.

The capital expenditure program undertaken in the period was financed generally from cash flow from operating activities. Of the total capital expenditures in the 2020-quarter \$0.1 million was used to grow the Corporation's fleet of drilling equipment and the remaining \$1.7 million was used to maintain the current fleet of drilling and other equipment.

The change in non-cash working capital balance of \$0.3 million (use of cash) for the three-month period ended September 30, 2020, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to \$1.6 million (use of cash) for the three-month period ended September 30, 2019.

Financing Activities

The Corporation reported cash flows used in financing activities of \$3.9 million in the three-month period ended September 30, 2020 as compared to \$6.1 million in the 2019-period. In the 2020-quarter the Corporation:

- repurchased 2,270,600 common shares for \$3.2 million under the NCIB; and
- made payments of \$0.7 million towards lease liability.

Capital Resources

As of September 30, 2020, the Corporation had nothing drawn on its syndicated and operating facilities, and a cash balance of \$18.9 million. As at September 30, 2020, the Corporation had approximately CAD \$65 million and USD \$15 million available from its credit facilities. The credit facilities are subject to a borrowing base limit which is \$67 million as at September 30, 2020. The credit facilities are secured by substantially all of the Corporation's assets.

As at September 30, 2020, the Corporation was in compliance with all its financial covenants.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. The 2020 capital expenditures are expected to be \$27.5 million, subject to quarterly review of the Board.

These planned expenditures are expected to be financed from a combination of one or more of the following: cash flow from operations, the Corporation's unused credit facilities or equity, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2020, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at September 30, 2020, the Corporation has commitments to purchase drilling and other equipment for \$3.5 million, with delivery expected to occur by the end of the year.

Outlook

During the third quarter, we achieved positive adjusted EBITDA, gained market share and maintained a cash positive position with zero bank debt despite the global COVID-19 pandemic and muted demand for energy continuing to impact our financial results. We remained diligently focused on cost management strategies and operational excellence which allowed us to produce these achievements in an extremely challenging environment.

With the prolonged duration of this pandemic, safety remains at the forefront of our activities. As new waves of COVID-19 develop, we continue to monitor the situation and the safety and health guidelines set out by government and health officials, adapting our operations and protocols as needed.

While the rig counts in North America fell to all-time lows during the third quarter, our strong reputation continued to position us as one of the most active providers in our sector. Today we work for 12 of the largest 15 operators in the US market. In this depressed environment, client mix is even more vital than ever as fewer operators account for a larger portion of the active rigs. In the US, the industry decline was greater than that experienced by our operations and in Canada we paralleled the industry decline. This resilience in a down market is testament to our strong marketing relationships, the performance of our premium technology and the expertise of our personnel.

We continue to focus on our strategic initiatives that are positioning us to outlast and survive this downturn and to grow when a meaningful market recovery occurs. Our priorities remain focused on building our balance sheet strength, maintaining positive adjusted EBITDA and cash flows despite declining revenue and activity and protecting our position as a technology leader. We continue to monitor, evaluate and adjust our business costs in line with drilling activity in North America and will continue to implement changes as required.

In the fourth quarter rig counts are slightly increasing, and our activity levels are also seeing a slight uptick from the third quarter as we have gained additional work from both existing and new clients. We are hopeful this trend will continue into 2021, given the recent strength in natural gas prices. That said, this is a very volatile time surrounded with uncertainty and conditions can change rapidly. Although we are in an enviable position both operationally and financially, any recovery will be gradual, and challenges, such as pricing pressure, will remain especially if the competitive landscape in our sector does not change.

We believe we are positioned to grow and protect our place both as an operational and financial leader in our sector as we all navigate the road ahead.

November 4, 2020

Michael Buker, President

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense, finance expense lease liability, income taxes, depreciation and amortization, impairment losses on drilling and other equipment and goodwill, equity share-based payments, severance payouts relating to the Corporation's restructuring cost, and unrealized foreign exchange gains or losses, does not have a standardized meaning and is not a financial measure that is recognized under GAAP. However, Management believes that adjusted EBITDA provides supplemental information to net earnings that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed and how it was taxed in various countries. Starting in the first quarter of 2020, due to the impact of COVID-19 and the downturn in the oil and natural gas industry, the Corporation included impairment expenses and severance costs, which were not present in the relative 2019-quarter. Severance costs related to restructuring were not present, and therefore were not included in the 2019 Annual Report. Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

The following is a reconciliation of net earnings to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2020	2019	2020	2019
Net income (loss)	(1,505)	2,594	(9,725)	(494)
Add (deduct):				
Depreciation and amortization drilling and other equipment	6,977	9,894	22,794	30,178
Depreciation and amortization right-of-use asset	861	896	2,723	2,642
Impairment loss	-	-	10,730	-
Severance expense	102	-	2,033	-
Provision for income taxes	66	1,086	133	1,830
Finance expense	133	306	661	1,090
Finance expense lease liability	573	622	1,799	1,897
Equity-settled share-based payments	66	160	214	559
Unrealized foreign exchange (gain) loss	196	(22)	100	259
Adjusted EBITDA as reported	7,469	15,536	31,462	37,961

Adjusted EBITDA per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of adjusted EBITDA per share on a dilutive basis does not include anti-dilutive options.

Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2020	2019	2020	2019
Cash flows from operating activities	9,400	9,721	57,781	40,665
Add (deduct):				
Changes in non-cash working capital	(3,989)	4,699	(28,277)	(6,756)
Interest paid	47	172	335	668
Income taxes paid (received)	23	77	(410)	(23)
Funds from operations	5,481	14,669	29,429	34,554

Funds from operations per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of funds from operations per share on a dilutive basis does not include anti-dilutive options.

Free Cash Flow

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

The following is a reconciliation of funds from operations to free cash flow:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2020	2019	2020	2019
Funds from operations ⁽¹⁾	5,481	14,669	29,429	34,554
Deduct:				
Maintenance capital expenditures	(1,691)	(1,658)	(5,478)	(7,956)
Cash payment on leases	(1,246)	(1,442)	(4,068)	(4,272)
Free cash flow	2,544	11,569	19,883	22,326

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to non-GAAP measures section that follows the Outlook section of this press release.

Debt to Covenant EBITDA Ratio

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

Working Capital

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

Net Debt

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

About PHX Energy Services Corp.

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

PHX Energy's Canadian directional drilling operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centres in Calgary, Alberta. In addition, PHX Energy has a facility in Estevan, Saskatchewan. PHX Energy's US operations, conducted through the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Casper, Wyoming; Midland, Texas; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania and Russia, and administrative offices in Nicosia, Cyprus; Dublin, Ireland; and Luxembourg City, Luxembourg.

In the first quarter of 2020, the Corporation closed substantially all of its operations in its Stream Services ("Stream") division which marketed electronic drilling recorder ("EDR") technology and services.

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

For further information please contact:

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Consolidated Statements of Financial Position

(unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,889,321	\$ 10,582,296
Trade and other receivables	30,231,680	93,641,885
Inventories	31,089,870	30,826,700
Prepaid expenses	2,119,286	2,569,046
Current tax assets	449,254	-
Total current assets	82,779,411	137,619,927
Non-current assets:		
Drilling and other equipment	76,545,462	78,416,229
Right-of-use asset	29,912,917	32,825,964
Intangible assets	16,906,645	18,901,559
Goodwill	-	8,876,351
Deferred tax assets	670,800	613,355
Total non-current assets	124,035,824	139,633,458
Total assets	\$ 206,815,235	\$ 277,253,385
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating facility	\$ -	\$ 11,395,835
Lease liability	3,316,277	2,765,633
Trade and other payables	23,046,780	54,892,277
Current tax liability	-	172,766
Total current liabilities	26,363,057	69,226,511
Non-current liabilities:		
Lease liability	36,821,093	39,753,860
Loans and borrowings	-	13,896,400
Deferred tax liability	8,134,294	5,432,527
Total non-current liabilities	44,955,387	59,082,787
Equity:		
Share capital	248,027,502	251,815,183
Contributed surplus	10,153,802	10,854,650
Retained earnings	(137,627,915)	(127,902,593)
Accumulated other comprehensive income	14,943,402	14,176,847
Total equity	135,496,791	148,944,087
Total liabilities and equity	\$ 206,815,235	\$ 277,253,385

Consolidated Statements of Comprehensive Loss

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 39,775,807	\$ 93,099,227	\$ 189,564,243	\$ 268,203,575
Direct costs	35,606,558	77,089,805	163,837,043	228,140,741
Gross profit	4,169,249	16,009,422	25,727,200	40,062,834
Expenses:				
Selling, general and administrative expenses	6,203,506	10,615,982	20,537,315	35,212,139
Research and development expenses	216,019	1,193,183	1,795,964	2,972,786
Finance expense	132,827	306,097	661,426	1,089,722
Finance expense lease liability	573,301	622,196	1,799,316	1,896,879
Other income	(1,517,516)	(407,597)	(204,350)	(2,445,385)
Impairment loss	-	-	10,729,587	-
	5,608,137	12,329,861	35,319,258	38,726,141
Earnings (loss) before income taxes	(1,438,888)	3,679,561	(9,592,058)	1,336,693
Provision for (Recovery of) income taxes				
Current	4,786	121,492	(741,788)	590,276
Deferred	61,503	964,563	875,052	1,239,976
	66,289	1,086,055	133,264	1,830,252
Net earnings (loss)	(1,505,177)	2,593,506	(9,725,322)	(493,559)
Other comprehensive income (loss)				
Foreign currency translation	(3,889,876)	1,001,351	766,555	(1,660,718)
Total comprehensive income (loss) for the period	\$ (5,395,053)	\$ 3,594,857	\$ (8,958,767)	\$ (2,154,277)
Loss per share – basic	\$ (0.03)	\$ 0.05	\$ (0.18)	\$ (0.01)
Loss per share – diluted	\$ (0.03)	\$ 0.05	\$ (0.18)	\$ (0.01)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2020	2019	2020	2019
Cash flows from operating activities:				
Net earnings (loss)	\$ (1,505,177)	\$ 2,593,506	\$ (9,725,322)	\$ (493,559)
Adjustments for:				
Depreciation and amortization	6,977,324	9,893,523	22,794,025	30,178,287
Depreciation and amortization right-of-use asset	860,942	895,878	2,723,376	2,641,400
Impairment loss	-	-	10,729,587	-
Provision for income taxes	66,289	1,086,055	133,264	1,830,252
Unrealized foreign exchange loss (gain)	196,489	(21,904)	100,158	259,105
Gain on disposition of drilling equipment	(136,060)	(513,628)	(2,544,631)	(3,390,124)
Equity-settled share-based payments	65,888	160,260	214,009	559,317
Finance expense	132,827	306,097	661,426	1,089,722
Provision for (Recovery of) bad debts	(1,608,021)	61,590	2,343,733	387,728
Provision for inventory obsolescence	431,190	207,958	2,000,430	1,491,260
Interest paid	(47,314)	(172,424)	(335,375)	(667,712)
Income taxes received (paid)	(23,362)	(77,482)	409,602	23,389
Change in non-cash working capital	3,988,970	(4,698,171)	28,276,583	6,755,880
Net cash from operating activities	9,399,985	9,721,258	57,780,865	40,664,945
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	837,528	5,779,886	5,472,487	11,823,951
Acquisition of drilling and other equipment	(1,815,513)	(8,443,739)	(22,245,353)	(28,840,422)
Acquisition of intangible assets	-	(66,180)	-	(66,180)
Change in non-cash working capital	(295,943)	(1,631,833)	(373,126)	(5,345,034)
Net cash used in investing activities	(1,273,928)	(4,361,866)	(17,145,992)	(22,427,685)
Cash flows from financing activities:				
Proceeds from (repayment of) loans and borrowings	-	(1,308,700)	(13,960,400)	3,179,000
Proceeds from (repayment of) operating facility	-	9,827	(11,395,835)	(6,780,490)
Payments of lease liability	(672,480)	(819,493)	(2,269,075)	(2,374,837)
Surrender value cash payment	-	-	(1,518,042)	-
Repurchase of shares under the NCIB	(3,192,246)	(3,978,754)	(3,192,246)	(9,324,191)
Proceeds from issuance of share capital	-	-	7,750	87,750
Net cash used in financing activities	(3,864,726)	(6,097,120)	(32,327,848)	(15,212,768)
Net increase (decrease) in cash and cash equivalents	4,261,331	(737,728)	8,307,025	3,024,492
Cash and cash equivalents, beginning of period	14,627,990	7,405,638	10,582,296	3,643,418
Cash and cash equivalents, end of period	\$ 18,889,321	\$ 6,667,910	\$ 18,889,321	\$ 6,667,910