PHX ENERGY SERVICES CORP.

Press Release
November 5, 2024
TSX – PHX
Calgary, Alberta

PHX Energy Announces Third Quarter Results and Preliminary 2025 Capital Expenditures Program

Third Quarter Highlights

- Despite the continued softening in the US rig count in the third quarter of 2024, PHX Energy generated consolidated revenue of $160.6 million, only 5 percent lower than the record third quarter consolidated revenue of $169.4 million generated in 2023. Consolidated revenue in the 2024-quarter included $10.2 million of motor rental revenue and $2 million of revenue generated from the sale of motor equipment and parts (2023 - $13.2 million and $6.2 million, respectively).

- For the three-month period ended September 30, 2024, PHX Energy's US division generated revenue of $117 million, 6 percent lower than the $123.8 million in the 2023-quarter and marginally higher than the $116 million in the second quarter of 2024. The decline in US quarterly revenue is largely attributable to lower motor rental revenue and motor equipment and parts sales while the US division's directional drilling revenue was flat quarter-over-quarter. In comparison, the US rig count was down 10 percent compared to the third quarter of 2023 and 3 percent compared to the second quarter of 2024. US division revenue in the 2024-quarter represented 73 percent of consolidated revenue (2023 – 73 percent of consolidated revenue).

- PHX Energy's Canadian division reported $43.7 million of quarterly revenue, 4 percent lower compared to $45.5 million in the 2023-quarter. In comparison, the Canadian rig count increased by 10 percent quarter-over-quarter. During the 2024 three-month period, PHX Energy's Canadian activity was negatively affected by the weak natural gas prices that persisted and the resulting reduction in its natural gas clients' activity.

- For the three-month period ended September 30, 2024, adjusted EBITDA(1) was $29 million, 18 percent of consolidated revenue(1), as compared to $43.5 million, 26 percent of consolidated revenue, in the same 2023-quarter. Earnings in the 2024 three-month period were $10.2 million, $0.22 per share, as compared to $24.9 million, $0.50 per share, in the same 2023-period. Included in the 2024-quarter's adjusted EBITDA and earnings is $4.3 million (pre-tax) of net gain on disposition of drilling equipment, a decrease compared to $8.4 million (pre-tax) in the 2023-quarter. Additionally, included in the 2024 three-month period adjusted EBITDA is cash-settled share-based compensation expense of $2.5 million (2023 - $5 million). For the three-month period ended September 30, 2024, adjusted EBITDA excluding cash-settled share-based compensation expense(1) is $31.5 million, 20 percent of consolidated revenue (2023 - $48.5 million, 29 percent of consolidated revenue). Apart from lower revenue and net gain on disposition of drilling equipment, the decline in profitability in the 2024-quarter was generally due to decreased activity in the Corporation's high margin revenue streams, including Rotary Steerable System ("RSS") activity, motor rentals, and motor equipment and parts sales.

- In the third quarter of 2024, the Corporation generated excess cash flow(2) of $19.3 million, after deducting net capital expenditures(2) of $4.2 million ($11.1 million of capital expenditures offset by proceeds on disposition of drilling and other equipment of $6.9 million).

- In the 2024 three-month period, PHX Energy paid $9.4 million in dividends which is 24 percent higher than the dividend amount paid in the same 2023-period. On September 13, 2024, the Corporation declared a dividend of $0.20 per share or $9.2 million payable on October 15, 2024.

- 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.

- There were 1,289,932 common shares purchased for $12.6 million and subsequently cancelled under the previous and current NCIB in the three-month period ended September 30, 2024 (2023 – 2,442,700 shares, $17.5 million). Subsequent to September 30, 2024, the Corporation purchased and cancelled 420,100 common shares for $4.1 million including incremental transaction costs.

- Since the second quarter of 2017 to September 30, 2024, a total of 15.7 million common shares have been purchased and cancelled under PHX Energy's various NCIB's. This represents 27 percent of common shares outstanding as of June 30, 2017. It is the Corporation's intention to continue the current strategy of leveraging the NCIB to its fullest as a tool to further reward shareholders under ROCS.

- As at September 30, 2024, the Corporation had working capital(2) of $75.7 million and net debt(2) of $5 million.

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,		
	2024	2023	% Change	**2024**	2023	% Change
Operating Results	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**160,634**	169,368	(5)	**480,987**	491,008	(2)
Earnings	**10,160**	24,921	(59)	**40,527**	65,447	(38)
Earnings per share – diluted	**0.22**	0.50	(56)	**0.86**	1.28	(33)
Adjusted EBITDA(1)	**29,018**	43,524	(33)	**94,100**	115,330	(18)
Adjusted EBITDA per share – diluted(1)	**0.60**	0.88	(32)	**1.93**	2.17	(11)
Adjusted EBITDA as a percentage of revenue(1)	**18%**	26%		**20%**	23%	
Cash Flow						
Cash flows from operating activities	**28,740**	33,628	(15)	**79,225**	59,969	32
Funds from operations(2)	**24,941**	34,166	(27)	**75,395**	91,150	(17)
Funds from operations per share – diluted(3)	**0.52**	0.69	(25)	**1.55**	1.71	(9)
Dividends paid per share(3)	**0.20**	0.15	33	**0.60**	0.45	33
Dividends paid	**9,437**	7,621	24	**28,388**	22,913	24
Capital expenditures	**11,143**	18,804	(41)	**67,563**	49,458	37
Excess cash flow(2)	**19,334**	25,724	(25)	**30,311**	70,465	(57)
Financial Position				**Sept 30 '24**	Dec 31 '23	
Working capital(2)				**75,677**	93,915	(19)
Net debt (Net cash)(2)				**4,968**	(8,869)	n.m.
Shareholders' equity				**210,213**	209,969	-
Common shares outstanding				**45,909,773**	47,260,472	(3)

n.m. – not meaningful

Outlook

- With the forecast that the US rig count has stabilized, and will likely remain near current levels, we believe our US operations will maintain the activity levels achieved in the third quarter. We will continue to focus on RSS applications, as the margins from this business line can have a meaningful impact on improved profitability. With current R&D efforts, we will further differentiate our RSS fleet with our proprietary Real Time RSS Communications, an ancillary technology we have developed, and market our unique advantages to US Operators who are hyper focused on drilling efficiencies. We believe through 2025 we could see RSS representing an even greater portion of our operations.

- Although our Atlas motor rental division was more directly impacted by the softening of the US rig count, we believe this high margin business line has the potential for growth. PHX is focused on adding resources to this division in an effort to attract new business.

- The 2024-year has been strong for our Canadian operations, although weak natural gas prices and client mix did impact the third quarter. We foresee the overall strength in the operations continuing through the remainder of the year and into 2025. The recent purchase of PowerDrive Orbit RSS technology for this market will generate improved margins in the upcoming year. RSS represents less than 5 percent of our Canadian activity, and we believe RSS growth will provide a notable upside in 2025.

- In 2025 we anticipate an initial capital expenditure budget of $50 million, split evenly between growth and maintenance. Our large capital expenditures over the past two years have allowed us to build a fleet of MWD tools and high performance drilling motors that will support our forecasted growth in 2025, and enable us to focus growth expenditures primarily on the RSS fleet.

- With our forecasted lower 2025 capital expenditure budget, we anticipate maintaining our strong commitment to shareholder returns through ROCS. We foresee exhausting our current NCIB as we believe our stock remains under valued at the current levels.

Michael Buker, President
November 5, 2024

Financial Results

During the third quarter of 2024, the Corporation's US activity continued to be impacted by the softening US rig counts while PHX Energy's Canadian activity was impacted by weaker natural gas drilling activity. Despite these unfavorable market conditions, the Corporation generated consolidated revenue of $160.6 million in the 2024-quarter, only 5 percent lower as compared to the record $169.4 million generated in the same 2023-quarter.

For the three-month period ended September 30, 2024, the Corporation's US division's revenue decreased by 6 percent to $117 million as compared to $123.8 million in the same 2023-period. The US industry's rig count declined 10 percent as compared to the third quarter of 2023 while PHX Energy's US operating days only declined by 3 percent from 4,050 in the third quarter of 2023 to 3,916 in the 2024-quarter. Average revenue per day(3) for directional drilling services increased by 3 percent quarter-over-quarter which offset the decline in activity and resulted in flat revenue for directional drilling services. The weaker industry rig count had a more direct impact on the Corporation's US motor rental division whose revenue decreased to $9.8 million from $12.9 million in the 2023-quarter. The US motor sales division revenue also declined from $6.2 million to $2 million in the 2024-quarter as revenue was primarily generated from parts sales to existing clients rather than new motor purchases as was the case in the third quarter of 2023. Revenue from PHX Energy's US segment represented 73 percent of consolidated revenue in the 2024 three-month period (2023 - 73 percent).

In the 2024 three-month period, the Corporation's Canadian division generated revenue of $43.7 million, which is 4 percent less than the $45.5 million generated in the same 2023-period. During the 2024-quarter, Canadian industry activity increased by 9 percent while PHX Energy's Canadian operating days decreased by 2 percent to 3,302 days from the 3,385 operating days in the comparable 2023-quarter. As a result of decreasing natural gas prices, a number of PHX Energy's Canadian natural gas clients had fewer rigs running in the period. Average revenue per day(3) for directional drilling services decreased by 2 percent quarter-over-quarter and the Corporation's Canadian motor rental division generated $0.4 million of revenue, in the third quarter of 2024 (2023 - $0.3 million).

For the three-month period ended September 30, 2024, earnings were $10.2 million (2023 - $24.9 million), adjusted EBITDA(1) was $29 million (2023 - $43.5 million), and adjusted EBITDA represented 18 percent of consolidated revenue(1) (2023 – 26 percent). Lower activity in the Corporation's high-margin business lines, particularly RSS activity, motor rentals, and motor equipment and parts sales, partly contributed to the decline in profitability. In addition, fewer occurrences of downhole equipment losses in the 2024-quarter resulted in lower net gain recognized on disposition of drilling equipment which was $4.3 million (pre-tax) in the third quarter of 2024 compared to $8.4 million (pre-tax) in the 2023-quarter, a $4 million decrease. Included in the 2024 three-month period adjusted EBITDA is cash-settled share-based compensation expense of $2.5 million (2023 - $5 million). For the three-month period ended September 30, 2024, adjusted EBITDA excluding cash-settled share-based compensation expense(1) is $31.5 million, 20 percent of consolidated revenue (2023 - $48.5 million, 29 percent of consolidated revenue).

As at September 30, 2024, the Corporation had working capital(2) of $75.7 million and net debt(2) of $5 million. The Corporation also has CAD $75.5 million and USD $20 million available to be drawn from its credit facilities.

Dividends and ROCS

On September 13, 2024, the Corporation declared a dividend of $0.20 per share payable to shareholders of record at the close of business on September 30, 2024. This is 33 percent higher than the dividend of $0.15 per share declared in the 2023-quarter. An aggregate of $9.2 million was paid on October 15, 2024.

The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") which will potentially allow up to 70 percent of 2024 excess cash flow to be used for shareholder returns and includes multiple options including the dividend program and the NCIB. In the third quarter of 2024, $9.4 million (2023 - $7.6 million) was paid in dividends to shareholders and $12.6 million (2023 - $17.5 million) was used to repurchase and cancel shares under the previous and current NCIB. In the 2024-quarter, 70 percent of PHX Energy's excess cash flow(2) was $13.5 million (2023 – $18 million). The remaining distributable balance under ROCS(2) was negative $8.5 million in the 2024 three-month period (2023 - negative $7.1 million) due to a decrease in excess cash flow, mainly resulting from lower cash flows generated from operations, higher capital expenditures and decrease in proceeds on disposition of drilling equipment. Despite the decrease in excess cash flow, the Corporation maintained its current level of dividends and continued NCIB purchases as it believed the stock price was opportunistic, leading to over 70 percent of excess cash flow being distributed for shareholder returns under ROCS. The Corporation foresees the level of excess cash flow to be used for shareholder returns to stay within the 70 percent threshold in 2025.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Excess cash flow	**19,334**	25,724	**30,311**	70,465
70% of excess cash flow	**13,534**	18,007	**21,218**	49,326
Deduct:				
Dividends paid to shareholders	**(9,437)**	(7,621)	**(28,388)**	(22,913)
Repurchase of shares under the NCIB	**(12,612)**	(17,523)	**(15,756)**	(19,102)
Remaining Distributable Balance under ROCS	**(8,515)**	(7,137)	**(22,926)**	7,311

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 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 previous and current NCIB, 1,648,232 common shares were purchased by the Corporation for $15.8 million including incremental transaction costs, and cancelled in the nine-month period ended September 30, 2024 (2023 – 2,710,500 shares, $19.1 million). Of the 1,648,232 common shares purchased and cancelled, 1,069,121 common shares were purchased under the previous NCIB and 579,111 common shares were purchased under the current NCIB. Subsequent to September 30, 2024, the Corporation purchased and cancelled 420,100 common shares for $4.1 million including incremental transaction costs.

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

Capital Spending

In the third quarter of 2024, the Corporation spent $11.1 million in capital expenditures, of which $11 million was spent on growing the Corporation's fleet of drilling equipment, $0.1 million was spent to replace retired assets, and nothing was spent to replace equipment lost downhole during drilling operations (2023 - $12.5 million, $2.8 million, and $3.5 million, respectively). With proceeds on disposition of drilling and other equipment of $7 million (2023 - $11.7 million), the Corporation's net capital expenditures(2) for the 2024-quarter were $4.2 million (2023 - $7.1 million). Capital expenditures in the 2024-quarter were primarily directed towards Atlas High Performance motors ("Atlas"), Velocity Real-Time systems ("Velocity"), and RSS. PHX Energy funded capital spending primarily using proceeds on disposition of drilling equipment, cash flows from operating activities, and its credit facilities when required.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Growth capital expenditures	**11,061**	12,471	**59,798**	27,356
Maintenance capital expenditures from asset retirements	**82**	2,825	**6,252**	11,543
Maintenance capital expenditures from downhole equipment losses	**-**	3,508	**1,513**	10,559
	11,143	18,804	**67,563**	49,458
Deduct:				
Proceeds on disposition of drilling equipment	**(6,973)**	(11,682)	**(26,683)**	(32,689)
Net capital expenditures(2)	**4,170**	7,122	**40,880**	16,769

As at September 30, 2024, the Corporation had capital commitments to purchase drilling and other equipment for $12 million, $10.7 million of which is growth capital allocated as follows: $1 million for performance drilling motors, $3.8 million for Velocity systems, $2.6 million for RSS, and $3.3 million for other equipment. The majority of the equipment on order as at September 30, 2024 is expected to be delivered in the last quarter of 2024 and in early 2025.

The approved capital expenditure budget for the 2024-year has been increased to $80 million from the previously announced $75 million, excluding proceeds on disposition of drilling equipment. The additional $5 million in capital expenditures is expected to be directed towards RSS systems for both the Canadian and US markets to further grow this high margin business line in both regions. Additionally, included in the $80 million is $5 million of carryover from the 2023 budget. Of the total expenditures, $71 million is expected to be allocated to growth capital and the remaining $9 million is expected to be allocated towards maintenance of the existing fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations.

The Board has approved a preliminary 2025 capital expenditure program of $50 million, of which approximately half is anticipated to be spent on growth. The Corporation believes that with the higher levels of capital expenditures in the past two years, its current fleet of MWD systems and motors will support its forecasted 2025-activity and the 2025 growth capital expenditures are expected to be mainly focused on further expanding the RSS fleets including its related ancillary technologies, such as the Real Time RSS Communications. The remaining half is anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations.

The Corporation currently possesses approximately 835 Atlas motors, comprised of various configurations including its 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", 9.00", and 9.62" Atlas motors, and 129 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 76 RSS tools and the only fleet currently comprised of both the PowerDrive Orbit and iCruise systems.

Non-GAAP and Other Financial Measures

Throughout this press release, 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 are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP and Other Financial Measures" section of this press release for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Footnotes throughout this document reference:

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

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

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

Industry data cited throughout this press release 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.

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 September 30,			Nine-month periods ended September 30,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**148,460**	149,986	(1)	**446,602**	444,214	1
Motor rental	**10,212**	13,174	(22)	**28,470**	36,676	(22)
Sale of motor equipment and parts	**1,962**	6,208	(68)	**5,915**	10,118	(42)
Total revenue	**160,634**	169,368	(5)	**480,987**	491,008	(2)

For the three-month period ended September 30, 2024, the Corporation's consolidated revenue was $160.6 million, 5 percent lower than the third quarter record of $169.4 million achieved in 2023. For the nine-month period ended September 30, 2024, the Corporation generated consolidated revenue of $481 million, a decrease of 2 percent as compared to the $491 million generated in the equivalent 2023-period.

In the third quarter of 2024, the US industry rig count continued to soften with an average of 571 horizontal and directional rigs operating per day as compared to 632 horizontal and directional rigs in the third quarter of 2023, a 10 percent decline. In Canada, industry horizontal and directional drilling activity (as measured by drilling days) was 17,508 days in the 2024-quarter, a 9 percent increase from 16,057 days in the same 2023-quarter. For the three-month period ended September 30, 2024, PHX Energy's consolidated activity levels decreased by 3 percent to 7,218 days compared to 7,435 days in the same 2023-period.

While the US division's activity outperformed industry trends only contracting 3 percent, the Canadian division's activity was relatively flat quarter-over-quarter. For the nine-month period ended September 30, 2024, consolidated operating days increased by 1 percent to 22,070 from 21,915 days in the corresponding 2023-period. Through both the 2023-year and 2024-year-to date, the Corporation's RSS activity represented 20 to 25 percent of its US activity and 2 to 4 percent of its Canadian activity.

In the 2024 three-month period, average consolidated revenue per day[3] for directional drilling services increased by 2 percent to $20,572 from $20,174 in the same 2023-period while over the first three quarters of the 2024-year, average consolidated revenue per day was flat at $20,237 as compared to $20,253 in same 2023-period.

As a result of the continued softening in US industry rig count, in both the three and nine-month periods of 2024, revenue generated by the Corporation's Atlas motor rental division declined by 22 percent to $10.2 million in the 2024-quarter (2023 - $13.2 million) and $28.5 million in the 2024 nine-month period (2023 - $36.7 million).

For the three and nine-month periods ended September 30, 2024, revenue of $2 million and $5.9 million, respectively, were generated from the sale of Atlas motors and parts (2023 – $6.2 million and $10.1 million, respectively). In the 2023-periods, there were large customer orders as they were building their fleets whereas in the 2024-periods, revenue was mainly generated through the sale of parts to maintain these fleets. 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 September 30,			Nine-month periods ended September 30,		
	2024	2023	% Change	**2024**	2023	% Change
Direct costs	**131,666**	125,138	5	**387,166**	376,996	3
Depreciation & amortization drilling and other equipment (included in direct costs)	**11,516**	9,867	17	**32,977**	28,805	14
Depreciation & amortization right-of-use asset (included in direct costs)	**1,214**	822	48	**2,920**	2,057	42
Gross profit as a percentage of revenue excluding depreciation & amortization[2]	**26%**	32%		**27%**	30%	

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. In the 2024 three and nine-month periods, direct costs increased by 5 percent and 3 percent, respectively, to $131.7 million in the 2024-quarter (2023 - $125.1 million) and $387.2 million in the 2024 nine-month period (2023 - $377 million).

As a result of the Corporation's growth-oriented capital expenditure programs over the past three years, depreciation and amortization expenses on drilling and other equipment for the three and nine-month periods ended September 30, 2024, increased by 17 percent and 14 percent, respectively. Apart from higher depreciation and amortization expenses on drilling and other equipment, greater direct costs in both 2024-periods were largely due to rising equipment repair and equipment rental costs, which partly resulted from the diversification and enhancement of RSS fleet and its related ancillary technologies.

In the three and nine-month periods of 2024, gross profit as a percentage of revenue excluding depreciation and amortization(1) declined to 26 percent and 27 percent, respectively, from 32 percent and 30 percent in the corresponding 2023-periods. Apart from rising equipment repair and equipment rental costs, lower profitability in both 2024-periods was also attributable to decreased activity in the Corporation's high-margin revenue streams particularly RSS activity, motor rentals, and motor equipment and parts sales.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2024	2023	% Change	**2024**	2023	% Change
Selling, general and administrative ("SG&A") costs	**15,885**	19,833	(20)	**50,726**	50,911	-
Cash-settled share-based compensation (included in SG&A costs)	**2,471**	4,969	(50)	**9,584**	8,899	8
Equity-settled share-based compensation (included in SG&A costs)	**140**	144	(3)	**422**	431	(2)
SG&A costs excluding share-based compensation as a percentage of revenue(1)	**8%**	9%		**8%**	8%	

For the three-month period ended September 30, 2024, SG&A costs were $15.9 million, a decrease of 20 percent as compared to $19.8 million in the corresponding 2023-period. Lower SG&A costs in the 2024 three-month period are mainly attributable to the 50 percent decrease in cash-settled share-based compensation expense when compared to the 2023-quarter. For the nine-month period ended September 30, 2024, SG&A costs were $50.7 million, on par with the $50.9 million in the corresponding 2023-period.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three and nine-month periods ended September 30, 2024, the related compensation expense recognized by the Corporation was $2.5 million (2023 - $5 million) and $9.6 million (2023 - $8.9 million), respectively. Changes in cash-settled share-based compensation expense in the 2024-periods were mainly driven by fluctuations in the Corporation's share price and the number of awards granted in the period. There were 1,587,459 retention awards outstanding as at September 30, 2024 (2023 – 2,135,283). Excluding share-based compensation, SG&A costs as a percentage of revenue(1) in both the 2024 three and nine-month periods was 8 percent, as compared to 9 percent and 8 percent in the corresponding 2023-periods.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2024	2023	% Change	**2024**	2023	% Change
Research and development expense	**1,392**	1,246	12	**4,004**	3,817	5

For the three and nine-month periods ended September 30, 2024, PHX Energy's research and development ("R&D") expenditures were $1.4 million (2023 - $1.2 million) and $4 million (2023 - $3.8 million), respectively. Increased R&D expenditures in the 2024 three and nine-month periods were largely due to greater personnel-related resources that are essential in supporting the increasing number of R&D projects focused on improving the design of existing technologies to further enhance reliability, reduce costs to operate, and displace certain equipment rentals.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2024	2023	% Change	**2024**	2023	% Change
Finance expense	**620**	598	4	**1,421**	1,974	(28)
Finance expense lease liabilities	**628**	554	13	**1,700**	1,695	-

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three and nine-month periods ended September 30, 2024, finance expenses were $0.6 million (2023 - $0.6 million) and $1.4 million (2023 - $2 million), respectively. In the 2024 three-month period, the slight increase in finance expenses was mainly due to the drawings made from the credit facilities during the 2024-quarter. In the 2024 nine-month period, the 28 percent decline in finance expenses was largely due to the lower amounts of loans and borrowings outstanding in the 2024 nine-month period.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three-month period ended September 30, 2024, finance expense lease liabilities increased by 13 percent primarily due to new vehicle leases. For the nine-month period ended September 30, 2024, finance expense lease liabilities were flat due to leases that expired in the first nine months of the 2024-year, offset by new vehicle leases in the third quarter of 2024.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Net gain on disposition of drilling equipment	**4,340**	8,354	**18,627**	23,903
Foreign exchange gains (losses)	**164**	(347)	**(124)**	574
Recovery of (provision for) bad debts	**-**	1,106	**-**	(117)
Other income	**4,504**	9,113	**18,503**	24,360

For the three and nine-month periods ended September 30, 2024, the Corporation recognized other income of $3.7 million and $17.7 million, respectively (2023 - $9.1 million and $24.4 million, respectively). 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 both 2024-periods, there were significantly fewer instances of high dollar valued downhole equipment losses occurred as compared to the corresponding 2023-periods which resulted in lower levels of net gains on disposition of drilling and other equipment recognized.

Foreign exchange gains of $0.2 million and losses of $0.1 million in the three and nine-month periods of 2024, respectively (2023 – losses of $0.3 million and gains of $0.6 million, respectively), were primarily due to the revaluation of USD-denominated trade and other payables.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Provision for income taxes	**4,787**	6,191	**13,946**	14,528
Effective tax rates(3)	**32%**	20%	**26%**	18%

For the three-month period ended September 30, 2024, the Corporation reported income tax provision of $4.8 million (2023 - $6.2 million), of which, $2.7 million was current and $2.1 million was deferred. For the nine-month period ended September 30, 2024, PHX Energy recognized provision for income taxes of $13.9 million (2023 - $14.5 million), of which, $12.7 million was current and $1.2 million was deferred. In the 2024 three and nine-month periods, PHX Energy's effective tax rate(3) was 32 and 26 percent, respectively, which is higher than the combined US federal and state corporate income tax rate of 24.5 percent and combined Canadian federal and provincial income tax rate of 23 percent. In the 2024-periods, due to legislative changes that were enacted in the Corporation's Canadian jurisdiction, certain foreign expenses had to be included as income for Canadian tax purposes causing the increase in effective tax rate. In the 2023 three and nine-month periods, PHX Energy's effective tax rate of 20 percent and 18 percent, respectively, are lower than the combined US federal and state corporate income tax rate 24.5 percent and combined Canadian federal and provincial income tax rate of 23 percent, due to the recognition of previously unrecognized deferred tax assets that were applied to income for tax purposes in Canada.

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 *(refer to the "Changes in Material Accounting Policies" section of the third quarter MD&A filed on SEDAR+(www.sedarplus.ca) for the change in operating segments)*. 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 September 30,			Nine-month periods ended September 30,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**105,232**	104,725	-	**313,864**	329,035	(5)
Motor rental	**9,789**	12,891	(24)	**27,344**	35,292	(23)
Sale of motor equipment and parts	**1,962**	6,208	(68)	**5,915**	10,118	(42)
Total revenue	**116,983**	123,824	(6)	**347,123**	374,445	(7)
Direct costs	**94,906**	90,717	5	**276,723**	286,780	(4)
Gross profit	**22,077**	33,107	(33)	**70,400**	87,665	(20)
Expenses:						
Selling, general and administrative expenses	**7,126**	6,525	9	**22,463**	20,716	8
Research and development expenses	**-**	-	-	**-**	-	-
Finance expense	**-**	-	-	**-**	-	-
Finance expense lease liability	**312**	227	37	**743**	706	5
Other income	**(2,666)**	(7,948)	(66)	**(13,738)**	(21,700)	(37)
Reportable segment profit (loss) before income taxes	**17,305**	34,303	(50)	**60,932**	87,943	(31)

For the three and nine-month periods ended September 30, 2024, the US segment's revenue was $117 million and $347.1 million, respectively, a decline of 6 and 7 percent as compared to $123.8 million and $374.4 million in the corresponding 2023-periods.

Throughout the first three quarters of 2024, the US industry rig count was soft and trended lower than its five-year average. While the US division's motor rental activities were more directly impacted, its directional drilling activity was more resilient, only down 3 percent at 3,916 operating days when compared to 4,050 days in the same 2023-quarter. The US division RSS activity represented 24 percent of its operating days, which is slightly less than the 25 percent represented in the 2023-quarter. In comparison, the US industry average number of active horizontal and directional rigs per day in the 2024 three-month period decreased by 10 percent at 571 rigs per day compared to 632 rigs per day in the corresponding 2023-period. For the nine-month period ended September 30, 2024, PHX Energy's US drilling activity decreased 8 percent to 12,229 operating days as compared to 13,234 days in the same 2023-period whereas US industry horizontal and directional rig count decreased by 15 percent. The US division's RSS activity level remained flat during the nine-month periods, representing 21 percent of activity in both the 2023 and 2024-periods. Despite the challenging industry conditions, the US division held its strong position, leveraging the solid demand and reputation of its premium technologies and the strength of its operational performance. In the first three quarters of 2024, the US division was active in the Permian, Scoop/Stack, Marcellus, Utica, Eagleford, and Bakken basins.

For the three-month period ended September 30, 2024, the US division's average revenue per day(3) for directional drilling services increased by 4 percent to $26,876 compared to $25,858 in the corresponding 2023-period and in the 2024 nine-month period, average revenue per day(3) for directional drilling services increased 3 percent to $25,667 from $24,836 in the same

2023-period. The strong US dollar in both 2024-periods favorably affected the average revenue per day[3]. Omitting the impact of foreign exchange, the average revenue per day[3] for directional drilling services increased by 3 percent in both the 2024 three and nine-month periods.

As a result of weaker US industry rig count, the Corporation' motor rental revenue declined to $9.8 million and $27.3 million, respectively in the three and nine-month periods of 2024. This represents a negative change of 24 percent and 23 percent, respectively, from the $12.9 million and $35.3 million generated in the corresponding 2023-periods.

In the 2024 three and nine-month periods, PHX Energy generated revenue of $2 million and $5.9 million from the sale of Atlas motors and parts, down from $6.2 million and $10.1 million in the respective 2023-periods. In the 2024-quarter, the US motor sales division revenue was primarily generated from parts sales to existing clients rather than new motor purchases as was the case in the third quarter of 2023. In addition, revenue from this line of business fluctuates between periods due to the sporadic and cyclical nature of the customers' ordering frequency.

For the three and nine-month periods ended September 30, 2024, the US segment's reportable segment income before tax were $17.3 million and $60.9 million, a decrease of 50 percent and 31 percent as compared to $34.3 million and $87.9 million in the corresponding 2023-periods. Apart from lower activity, the decline in profitability mainly resulted from increasing equipment repairs and rentals, greater depreciation expenses, and fewer instances of high dollar valued downhole equipment losses which resulted in lower levels of net gains on disposition of drilling and other equipment recognized in the US segment. In the third quarter of 2024, the increase in equipment repairs and rentals partly resulted from the diversification and enhancement of RSS fleet and its related ancillary technologies.

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**43,228**	45,261	(4)	**132,738**	115,179	15
Motor rental	**423**	283	49	**1,126**	1,384	(19)
Total revenue	**43,651**	45,544	(4)	**133,864**	116,563	15
Direct costs	**36,760**	34,421	7	**110,443**	90,216	22
Gross profit	**6,891**	11,123	(38)	**23,421**	26,347	(11)
Expenses:						
Selling, general and administrative expenses	**3,823**	3,598	6	**11,299**	8,768	29
Research and development expenses	**-**	-	-	**-**	-	-
Finance expense	**-**	-	-	**-**	-	-
Finance expense lease liability	**297**	309	(4)	**899**	935	(4)
Other income	**(1,838)**	(1,165)	58	**(4,765)**	(2,660)	79
Reportable segment profit (loss) before income taxes	**4,609**	8,381	(45)	**15,988**	19,304	(17)

In the 2024-quarter, the Corporation's Canadian operations generated revenue of $43.7 million, a 4 percent decrease compared to $45.5 million generated in the 2023-quarter. In the 2024 nine-month period, Canadian division revenue was $133.9 million, a 15 percent increase as compared to $116.6 million in the 2023-period.

For the three-month period ended September 30, 2024, the Canadian segment's operating days decreased by 2 percent to 3,302 days, as compared to 3,385 days in the corresponding 2023-period and its RSS operating days accounted for 3 percent of its activity in the 2023 and 2024-quarters. In comparison, industry horizontal and directional drilling activity (as measured by drilling days) increased by 9 percent to 17,508 days in the 2024 three-month period. During the 2024-quarter, the weak natural gas prices persisted, which led to the Corporation's natural gas clients reducing the number of rigs they had operating.

For the nine-month period ended September 30, 2024, the Canadian segment's activity growth outperformed that of the industry with operating days increasing by 13 percent to 9,842 days, as compared to 8,681 days in the corresponding 2023-period. Additionally, the Canadian division increased its RSS presence during 2024 and RSS operating days increased to 4 percent from 2 percent of the segment's activity in the 2023 nine-month period. In comparison, industry horizontal and directional drilling activity (as measured by drilling days) increased by 6 percent to 46,360 days in the 2024 nine-month period. Growth in RSS activity and client base expansion mainly drove the increase in the Canadian segment's directional drilling activity. In the first three quarters of 2024, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Ellerslie, Charlie Lake, Cummings, Sparky, and Scallion basins.

In both the three and nine-month periods of 2024, the Canadian division's average revenue per day(3) for directional drilling services was relatively flat. In the 2024-quarter, the Canadian division's average revenue per day(3) for directional drilling services decreased by 2 percent to $13,091 from $13,373 in the corresponding 2023-period while in the 2024 nine-month period, the Canadian division's average revenue per day(3) for directional drilling services increased by 2 percent to $13,488 from $13,268 in the corresponding 2023-period.

For the three and nine-month periods ended September 30, 2024, the Corporation's Canadian division recognized reportable segment profit before tax of $4.6 million (2023 – $8.4 million) and $16 million (2023 – $19.3 million), respectively. The decline in profitability in both 2024-periods was mainly due to higher depreciation expenses and greater equipment repair and equipment rental costs. With the Canadian division receiving three of its own PowerDrive Orbit RSS systems in the latter part of the 2024-quarter, the Corporation expects to displace and reduce RSS related equipment rentals in the future to improve profitability in this line of business.

Investing Activities

Net cash used in investing activities for the three-month period ended September 30, 2024 was $14.9 million as compared to $3.9 million in the 2023-period. During the third quarter of 2024, the Corporation spent $11.1 million (2023 - $12.5 million) to grow the Corporation's fleet of drilling equipment, $0.1 million (2023 - $2.8 million) was used to maintain capacity in the

Corporation's fleet of drilling and other equipment, and nothing was spent to replace equipment lost downhole during drilling operations (2023 - $3.5 million). With proceeds on disposition of drilling and other equipment of $7 million (2023 - $11.7 million), the Corporation's net capital expenditures(2) for the 2024-quarter were $4.2 million (2023 - $7.1 million).

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Growth capital expenditures	**11,061**	12,471	**59,798**	27,356
Maintenance capital expenditures from asset retirements	**82**	2,825	**6,252**	11,543
Maintenance capital expenditures from downhole equipment losses	**-**	3,508	**1,513**	10,559
	11,143	18,804	**67,563**	49,458
Deduct:				
Proceeds on disposition of drilling equipment	**(6,973)**	(11,682)	**(26,683)**	(32,689)
Net capital expenditures(2)	**4,170**	7,122	**40,880**	16,769

The 2024 three-month period capital expenditures comprised of:

- $3.7 million in downhole performance drilling motors;
- $4.5 million in RSS;
- $2.1 million in MWD systems and spare components; and
- $0.8 million in machinery and equipment and other assets.

The change in non-cash working capital balances of $9.4 million (use of cash) for the three-month period ended September 30, 2024, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $3.2 million (source of cash) for the three-month period ended September 30, 2023.

Financing Activities

For the three-month period ended September 30, 2024, net cash used in financing activities was $13.3 million as compared to $35.3 million in the 2023-period. In the 2024-period:

- dividends of $9.4 million were paid to shareholders;
- 1,289,932 shares were repurchased and cancelled under the NCIB for $12.6 million;
- payments of $0.8 million were made towards lease liabilities;
- $9.5 million net drawings were made from the Corporation's syndicated credit facility; and
- 20,000 common shares were issued from treasury for proceeds of $0.1 million upon the exercise of share options.

Capital Resources

As of September 30, 2024, the Corporation had CAD $19.2 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $14.2 million. As at September 30, 2024, the Corporation had CAD $75.5 million and USD $20 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 September 30, 2024, 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. With $5 million carried over from the 2023 capital expenditure budget and the $5 million increase in preliminary 2024 capital expenditure program announced, PHX Energy anticipates spending $80 million of capital expenditures in 2024. Of the total expenditures, $71 million is targeted to be spent on growth and $9 million is expected to be allocated to maintain capacity in the existing fleet of drilling and other equipment and replace equipment lost downhole during drilling operations. The amount expected to be allocated towards replacing equipment lost downhole could increase should more downhole equipment losses occur throughout the year.

The Board has approved a preliminary 2025 capital expenditure program of $50 million, of which approximately half is anticipated to be spent on growth. The growth capital expenditures are expected to be mainly focused on continually building our RSS fleets including its related ancillary technologies. The remaining half is anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation’s credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2024 and 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 these planned capital expenditure amount.

As at September 30, 2024, the Corporation has commitments to purchase drilling and other equipment for $12 million. The majority of deliveries are expected to occur in the last quarter of 2024 and in early 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. In the 2024-quarter, the Corporation started the wind up of its operations in Albania and expects the wind up to be completed by the end of 2024.

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

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Condensed Consolidated Interim Statements of Financial Position

(Stated in thousands of dollars, unaudited)

	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash	$ 14,203	$ 16,433
Trade and other receivables	107,655	121,334
Inventories	64,095	63,173
Prepaid expenses	2,609	2,409
Current tax assets	-	3,691
Total current assets	188,562	207,040
Non-current assets:		
Drilling and other long-term assets	158,201	128,263
Right-of-use assets	25,226	27,056
Intangible assets	14,088	14,200
Investments	2,171	3,001
Other long-term assets	2,222	1,284
Deferred tax assets	4,944	4,650
Total non-current assets	206,852	178,454
Total assets	$ 395,414	$ 385,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	$ 93,900	$ 100,438
Dividends payable	9,183	9,453
Current lease liability	3,510	3,234
Current tax liability	6,292	-
Total current liabilities	112,885	113,125
Non-current liabilities:		
Lease liability	31,948	33,972
Loans and borrowings	19,171	7,564
Deferred tax liability	18,677	16,822
Other	2,520	4,042
Total non-current liabilities	72,316	62,400
Equity:		
Share capital	208,093	222,653
Contributed surplus	7,268	7,168
Deficit	(33,286)	(45,695)
Accumulated other comprehensive income (AOCI)	28,138	25,843
Total equity	210,213	209,969
Total liabilities and equity	$ 395,414	$ 385,494

Condensed Consolidated Interim Statements of Comprehensive Earnings

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

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Revenue	**$ 160,634**	$ 169,368	**$ 480,987**	$ 491,008
Direct costs	**131,666**	125,138	**387,166**	376,996
Gross profit	**28,968**	44,230	**93,821**	114,012
Expenses:				
Selling, general and administrative expenses	**15,885**	19,833	**50,726**	50,911
Research and development expenses	**1,392**	1,246	**4,004**	3,817
Finance expense	**620**	598	**1,421**	1,974
Finance expense lease liability	**628**	554	**1,700**	1,695
Other income	**(4,504)**	(9,113)	**(18,503)**	(24,360)
	14,021	13,118	**39,348**	34,037
Earnings before income taxes	**14,947**	31,112	**54,473**	79,975
Provision for income taxes				
Current	**2,672**	5,616	**12,724**	13,592
Deferred	**2,115**	575	**1,222**	936
	4,787	6,191	**13,946**	14,528
Net earnings	**10,160**	24,921	**40,527**	65,447
Other comprehensive income				
Foreign currency translation, net of tax	**(2,217)**	3,613	**3,125**	(1,016)
Equity investment revaluation through AOCI	**-**	-	**(830)**	-
Total comprehensive earnings	**$ 7,943**	$ 28,534	**$ 42,822**	$ 64,431
Earnings per share – basic	**$ 0.22**	$ 0.50	**$ 0.86**	$ 1.29
Earnings per share – diluted	**$ 0.22**	$ 0.50	**$ 0.86**	$ 1.28

Condensed Consolidated Interim Statements of Cash Flows

(Stated in thousands of dollars, unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Cash flows from operating activities:				
Earnings	**$ 10,160**	$ 24,921	**$ 40,527**	$ 65,447
Adjustments for:				
Depreciation and amortization	**11,516**	9,867	**32,977**	28,805
Depreciation and amortization right-of-use asset	**1,214**	822	**2,920**	2,057
Provision for income taxes	**4,787**	6,191	**13,946**	14,529
Unrealized foreign exchange (gain) loss	**(47)**	427	**187**	392
Net gain on disposition of drilling equipment	**(4,340)**	(8,354)	**(18,627)**	(23,903)
Equity-settled share-based payments	**140**	144	**422**	431
Finance expense	**620**	598	**1,421**	1,974
Finance expense lease liability	**628**	554	**1,700**	1,695
Provision for (recovery of) bad debts	**-**	(1,106)	**-**	117
Provision for inventory obsolescence	**891**	654	**1,622**	1,302
Interest paid on lease liability	**(628)**	(554)	**(1,700)**	(1,695)
Interest paid	**(398)**	(473)	**(886)**	(1,506)
Income taxes paid	**(1,843)**	(7,076)	**(2,572)**	(8,534)
Change in non-cash working capital	**6,040**	7,013	**7,288**	(21,141)
Net cash from operating activities	**28,740**	33,628	**79,225**	59,970
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**6,973**	11,682	**26,683**	32,689
Acquisition of drilling and other equipment	**(11,143)**	(18,804)	**(67,563)**	(49,458)
Acquisition of intangible assets	**(1,365)**	-	**(1,365)**	-
Change in non-cash working capital	**(9,361)**	3,204	**(5,178)**	2,151
Net cash used in investing activities	**(14,896)**	(3,918)	**(47,423)**	(14,618)
Cash flows from financing activities:				
Repurchase of shares under the NCIB	**(12,612)**	(17,523)	**(15,756)**	(19,102)
Dividends paid to shareholders	**(9,437)**	(7,621)	**(28,388)**	(22,913)
Payments of lease liability	**(809)**	(766)	**(2,504)**	(2,221)
Net proceeds from (net repayment of) loans and borrowings	**9,500**	(9,400)	**11,500**	(4,231)
Proceeds from exercise of options	**53**	415	**874**	764
Purchase of shares held in trust	**-**	-	**-**	(612)
Change in non-cash working capital	**-**	(415)	**-**	(415)
Net cash used in financing activities	**(13,305)**	(35,310)	**(34,274)**	(48,730)
Net increase (decrease) in cash	**539**	(5,600)	**(2,472)**	(3,378)
Cash, beginning of period	**13,798**	20,080	**16,433**	18,247
Effect of movements in exchange rates on cash held	**(134)**	365	**242**	(24)
Cash, end of period	**$ 14,203**	$ 14,845	**$ 14,203**	$ 14,845

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 expectations related to future cash flows and the impact on the remaining distributable balance under ROCS, the Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through its dividend program, the ROCS program and NCIB, the anticipated industry activity and demand for the Corporation's services and technologies in North America, the impact of adding owned RSS tools to the Canadian fleet on profitability, the ability to reduce certain equipment rental costs and the related impact on profitability, the projected capital expenditures budget for 2024 and 2025, and how the budget will be allocated and funded, the timeline for delivery of equipment on order, the anticipated continuation of PHX Energy's quarterly dividend program and the amounts of dividends, and the expected timeframe for the windup of Albanian operations.

The above are stated under the headings: "Financial Results", "Dividends and ROCS", "Capital Spending", "Segmented Information" and "Capital Resources". In addition, all information contained under the heading "Outlook" of this document may contain forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this document and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, without limitation, that: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions and the accuracy of the Corporation's market outlook expectations for 2024 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the potential impact of 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 document are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) <u>Adjusted EBITDA</u>

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 September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Earnings:	**10,160**	24,921	**40,527**	65,447
Add:				
Depreciation and amortization drilling and other equipment	**11,516**	9,867	**32,977**	28,805
Depreciation and amortization right-of-use asset	**1,214**	822	**2,920**	2,057
Provision for income taxes	**4,787**	6,191	**13,946**	14,529
Finance expense	**620**	598	**1,421**	1,974
Finance expense lease liability	**628**	554	**1,700**	1,695
Equity-settled share-based payments	**140**	144	**422**	431
Unrealized foreign exchange loss (gain)	**(47)**	427	**187**	392
Adjusted EBITDA	**29,018**	43,524	**94,100**	115,330

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 at the period end.

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 September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Earnings:	**10,160**	24,921	**40,527**	65,447
Add:				
Depreciation and amortization drilling and other equipment	**11,516**	9,867	**32,977**	28,805
Depreciation and amortization right-of-use asset	**1,214**	822	**2,920**	2,057
Provision for income taxes	**4,787**	6,191	**13,946**	14,529
Finance expense	**620**	598	**1,421**	1,974
Finance expense lease liability	**628**	554	**1,700**	1,695
Equity-settled share-based payments	**140**	144	**422**	431
Unrealized foreign exchange loss (gain)	**(47)**	427	**187**	392
Cash-settled share-based compensation expense	**2,471**	4,969	**9,584**	8,899
Adjusted EBITDA excluding cash-settled share-based compensation expense	**31,489**	48,493	**103,684**	124,229

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 September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Revenue	**160,634**	169,368	**480,987**	491,008
Direct costs	**131,666**	125,138	**387,166**	376,996
Gross profit	**28,968**	44,230	**93,821**	114,012
Depreciation & amortization drilling and other equipment (included in direct costs)	**11,516**	9,867	**32,977**	28,805
Depreciation & amortization right-of-use asset (included in direct costs)	**1,214**	822	**2,920**	2,057
	41,698	54,919	**129,718**	144,874
Gross profit as a percentage of revenue excluding depreciation & amortization	**26%**	32%	**27%**	30%

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 September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
SG&A Costs	**15,885**	19,833	**50,726**	50,911
Deduct:				
Share-based compensation (included in SG&A)	**2,611**	5,113	**10,006**	9,330
	13,274	14,720	**40,720**	41,581
Revenue	**160,634**	169,368	**480,987**	491,008
SG&A costs excluding share-based compensation as a percentage of revenue	**8%**	9%	**8%**	8%

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 September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Cash flows from operating activities	**28,740**	33,628	**79,225**	59,969
Add (deduct):				
Changes in non-cash working capital	**(6,040)**	(7,011)	**(7,288)**	21,141
Interest paid	**398**	473	**886**	1,506
Income taxes paid	**1,843**	7,076	**2,572**	8,534
Funds from operations	**24,941**	34,166	**75,395**	91,150

b) Excess Cash Flow

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Cash flows from operating activities	**28,740**	33,628	**79,225**	59,969
Add (deduct):				
Changes in non-cash working capital	**(6,040)**	(7,011)	**(7,288)**	21,141
Interest paid	**398**	473	**886**	1,506
Income taxes paid	**1,843**	7,076	**2,572**	8,534
Cash payment on leases	**(1,437)**	(1,320)	**(4,204)**	(3,916)
	23,504	32,846	**71,191**	87,234
Proceeds on disposition of drilling equipment	**6,973**	11,682	**26,683**	32,689
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**(82)**	(6,333)	**(7,765)**	(22,102)
Net proceeds	**6,891**	5,349	**18,918**	10,587
Growth capital expenditures	**(11,061)**	(12,471)	**(59,798)**	(27,356)
Excess cash flow	**19,334**	25,724	**30,311**	70,465

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)

	September 30, 2024	December 31, 2023
Current assets	**188,562**	207,040
Deduct:		
Current liabilities	**(112,885)**	(113,125)
Working capital	**75,677**	93,915

d) Net Debt (Net Cash)

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

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

(Stated in thousands of dollars)

	September 30, 2024	December 31, 2023
Loans and borrowings	**19,171**	7,564
Deduct:		
Cash and cash equivalents	**(14,203)**	(16,433)
Net debt (Net cash)	**4,968**	(8,869)

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 debt may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Growth capital expenditures	**11,061**	12,471	**59,798**	27,356
Maintenance capital expenditures from asset retirements	**82**	2,825	**6,252**	11,543
Maintenance capital expenditures from downhole equipment losses	**-**	3,508	**1,513**	10,559
	11,143	18,804	**67,563**	49,458
Deduct:				
Proceeds on disposition of drilling equipment	**(6,973)**	(11,682)	**(26,683)**	(32,689)
Net capital expenditures	**4,170**	7,122	**40,880**	16,769

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 September 30,		Nine-month periods ended September 30,	
	2024	2023	**2024**	2023
Excess cash flow	**19,334**	25,724	**30,311**	70,465
70% of excess cash flow	**13,534**	18,007	**21,218**	49,326
Deduct:				
Dividends paid to shareholders	**(9,437)**	(7,621)	**(28,388)**	(22,913)
Repurchase of shares under the NCIB	**(12,612)**	(17,523)	**(15,756)**	(19,102)
Remaining Distributable Balance under ROCS	**(8,515)**	(7,137)	**(22,926)**	7,311

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 at period end.

Definitions

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

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

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

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