Press Release
August 6, 2024
TSX – PHX
Calgary, Alberta

PHX Energy Announces Solid Second Quarter Results

Second Quarter Highlights

- For the three-month period ended June 30, 2024, PHX Energy generated consolidated revenue of $154.2 million, only 1 percent lower than the record second quarter consolidated revenue of $155.6 million generated in 2023. Strong Canadian segment revenue and activity continued which helped partially offset the impact of the lower US rig count on the Corporation's US results. Consolidated revenue in the 2024-quarter included $10 million of motor rental revenue and $1.1 million of motor equipment and parts sold (2023 - $12.6 million and $3.2 million, respectively).
- In the second quarter of 2024, adjusted EBITDA(1) was $30 million, 19 percent of consolidated revenue(1), as compared to $34.8 million, 22 percent of consolidated revenue, in the same 2023-quarter. Included in the 2024-quarter's adjusted EBITDA is $1.4 million of cash-settled share-based compensation expense (2023 - $2.6 million). Adjusted EBITDA excluding cash-settled share-based compensation expense(1) in the second quarter of 2024 was $31.5 million, 20 percent of consolidated revenue(1) (2023 - $37.4 million, 24 percent of consolidated revenue).
- Earnings in the 2024 three-month period were $12.9 million, $0.26 per share, as compared to $18.1 million, $0.35 per share, in the same 2023-period.
- For the three-month period ended June 30, 2024, PHX Energy's US division generated revenue of $116 million, 7 percent lower than the $125 million in the 2023-quarter and 2 percent higher than the $114.2 million in the first quarter of 2024. The continued strong demand for the Corporation's premium technologies and strength of the US division's team of operating and marketing personnel sheltered the US segment from the full impact of the industry declines. The US rig count was down 16 percent second quarter-over-second quarter and 4 percent compared to the first quarter of 2024. US division revenue in the 2024-quarter represented 75 percent of consolidated revenue (2023 – 80 percent of consolidated revenue).
- PHX Energy's Canadian division reported $38.2 million of quarterly revenue, 25 percent higher compared to $30.7 million in the 2023-quarter and the highest level of second quarter revenue on record. In comparison, the Canadian rig count increased by 16 percent quarter-over-quarter.
- The stronger US dollar had a favorable impact on the 2024-quarter's financial results. In the 2023 three-month period, the average US dollar to Canadian dollar foreign exchange rate was 1.37 compared to 1.34 in the 2023-period.
- For the three-month period ended June 30, 2024, the Corporation generated excess cash flow(2) of $3.5 million, after deducting net capital expenditures(2) of $19.4 million ($26.8 million of capital expenditures offset by proceeds on disposition of drilling and other equipment of $7.4 million).
- In the 2024 three-month period, PHX Energy paid $9.5 million in dividends which is 24 percent higher than the dividend amount paid in the same 2023-period. On June 14, 2024, the Corporation declared a dividend of $0.20 per share or $9.4 million payable on July 15, 2024.

- There were 358,300 common shares purchased for $3.1 million and cancelled under the current NCIB in the three-month period ended June 30, 2024 (2023 – 267,800 shares, $1.6 million).

- From the second quarter of 2017 up to June 30, 2024, a total of 14.5 million common shares have been purchased and cancelled under PHX Energy's previous and current NCIB's. This represents 25 percent of common shares outstanding as of June 30, 2017.

- The Corporation intends to make an application to the TSX for renewal of its NCIB for a further one-year term and, subject to TSX approval, 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 June 30, 2024, the Corporation had working capital(2) of $75.1 million and net cash(2) of $4.1 million.

Financial Highlights

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

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2024	2023	% Change	**2024**	2023	% Change
Operating Results	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**154,230**	155,618	(1)	**320,353**	321,641	-
Earnings	**12,913**	18,108	(29)	**30,366**	40,526	(25)
Earnings per share – diluted	**0.26**	0.35	(26)	**0.64**	0.77	(17)
Adjusted EBITDA(1)	**30,049**	34,802	(14)	**65,082**	71,804	(9)
Adjusted EBITDA per share – diluted(1)	**0.62**	0.66	(6)	**1.37**	1.35	1
Adjusted EBITDA as a percentage of revenue(1)	**19%**	22%		**20%**	22%	
Cash Flow						
Cash flows from operating activities	**39,317**	22,633	74	**50,484**	26,341	92
Funds from operations(2)	**24,313**	30,248	(20)	**50,453**	56,985	(11)
Funds from operations per share – diluted(3)	**0.50**	0.57	(12)	**1.06**	1.07	(1)
Dividends paid per share(3)	**0.20**	0.15	33	**0.40**	0.30	33
Dividends paid	**9,498**	7,656	24	**18,951**	15,292	24
Capital expenditures	**26,780**	12,072	122	**56,420**	30,654	84
Excess cash flow(2)	**3,546**	25,508	(86)	**10,976**	44,743	(75)
Financial Position				**June 30 '24**	Dec 31 '23	
Working capital(2)				**75,052**	93,915	(20)
Net debt (Net cash)(2)				**(4,149)**	(8,869)	(53)
Shareholders' equity				**223,871**	209,969	7
Common shares outstanding				**47,179,705**	47,260,472	

Outlook

- In the third quarter the US rig count continues to soften, and our outlook for the US division is slightly more cautious than at the beginning of the year. We are the only provider in the market to offer two leading RSS technologies and we will continue to leverage this advantage along with our strong operational performance. We believe our unique technology offering and position as a market leader will continue to provide resilience to any pressures and assist in growing our market share.
- Our strategies for growing and expanding our motor sales and rental division, Atlas Downhole Technology, continue. We believe the experienced marketing and operations personnel will be able to deploy the additional assets purchased as part of our 2024 capital expenditures budget and we will see increased revenues and healthy margins in upcoming quarters.
- In Canada, the rig count remains above the 5-year average, and we foresee the Canadian division continuing to generate strong results in this positive environment. Our ability to outpace the industry's growth is driven by our strong market share in the deeper basins and premium technology offering, which has recently been strengthened with the deployment of RSS. Increased RSS activity in this division is an area of focus, and in the first half of the year we began to see the benefits, even with it presently representing a small percentage of our operating days. We have more initiatives in place to expand this portion of our Canadian business in upcoming quarters. Additionally, we anticipate the deployment of other recently commercialized technologies to provide further opportunities for growth in other basins, such as the Clearwater basin.
- With capital expenditures of $65 million and $75 million in 2023 and 2024, respectively, we have now built a fleet of premium technology which we believe will be able to support our North American growth in a flat or contracting industry environment. As such, we anticipate requiring a lower level of growth capital expenditures for this market in 2025.
- We do anticipate growth in the MENA region over the next few years, however with our strategic partnership and agreement currently in place, this revenue growth is not likely to require material capital expenditures to fulfill our obligations.
- With the likelihood of fewer capital requirements and lower spending in 2025, we foresee an opportunity to produce additional excess cash flow that will allow us to continue to leverage our ROCS program to create rewards for shareholders. We will continue to prioritize maintaining our balance sheet strength with low debt and to leverage this position to continue both our dividend and NCIB programs to create shareholder value. We intend to make an application to the TSX to renew our NCIB for another year.

Michael Buker, President
August 6, 2024

Financial Results

In the second quarter of 2024, PHX Energy generated consolidated revenue of $154.2 million which is only marginally lower compared to the $155.6 million generated in the same 2023-period.

For the three-month period ended June 30, 2024, the Corporation's US division's revenue decreased by 7 percent to $116 million as compared to $125 million in the same 2023-period. The US industry's rig count declined 16 percent as compared to the second quarter of 2023 while PHX Energy's US operating days only declined by 5 percent from 4,364 in the second quarter of 2023 to 4,146 in the 2024-quarter. Average revenue per day(3) for directional drilling services increased by 1 percent quarter-over-quarter and the Corporation's US motor rental and sales divisions generated $9.6 million and $1.1 million of revenue, respectively in the second quarter of 2024 (2023 - $12.2 million and $3.2 million, respectively). Revenue from PHX Energy's US segment represented 75 percent of consolidated revenue in the 2024 three-month period (2023 - 80 percent).

In the 2024 three-month period, the Corporation's Canadian division generated revenue of $38.2 million, which is the highest level of second quarter revenue in the Corporation's history and is 25 percent greater than the $30.7 million generated in the same 2023-period. During the 2024-quarter, Canadian industry activity increased by 17 percent while PHX Energy's Canadian operating days grew by 24 percent to 2,682 days from the 2,162 operating days in the comparable 2023-quarter. In the second quarter of 2024, the Canadian segment's Rotary Steerable System ("RSS") activity and client base continued to grow, and this primarily contributed to the 17 percent improvement in the division's average revenue per day over the second quarter of 2023.

For the three-month period ended June 30, 2024, earnings were $12.9 million (2023 - $18.1 million), adjusted EBITDA(1) was $30 million (2023 - $34.8 million), and adjusted EBITDA represented 19 percent of consolidated revenue(1) (2023 – 22 percent). Included in the 2024 three-month period adjusted EBITDA is cash-settled share-based compensation expense of $1.4 million (2023 - $2.6 million). For the three-month period ended June 30, 2024, adjusted EBITDA excluding cash-settled share-based compensation expense(1) is $31.5 million, 20 percent of consolidated revenue (2023 - $37.4 million, 24 percent of consolidated revenue).

As at June 30, 2024, the Corporation had working capital(2) of $75.1 million and net cash(2) of $4.1 million. The Corporation also has CAD $85 million and USD $20 million available to be drawn from its credit facilities.

Dividends and ROCS

On June 14, 2024, the Corporation declared a dividend of $0.20 per share payable to shareholders of record at the close of business on June 28, 2024. This is 33 percent higher than the dividend of $0.15 per share declared in the 2023-quarter. An aggregate of $9.4 million was paid on July 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 Normal Course Issuer Bid ("NCIB"). In the second quarter of 2024, $9.5 million (2023

- $7.7 million) was paid in dividends to shareholders and $3.1 million (2023 - $1.6 million) was used to repurchase and cancel shares under the current NCIB. In the 2024-quarter, 70 percent of PHX Energy's excess cash flow(2) was $2.5 million (2023 - $17.9 million). The remaining distributable balance under ROCS(2) was negative $10.2 million in the 2024 three-month period (2023 - positive $8.6 million) due to a decrease in excess cash flow, which was mainly due to higher capital expenditures spent in the 2024 three-month period. We expect that future cash flow will compensate for the negative balance in the quarter and anticipate the remaining distributable balance under ROCS to be positive in the latter half of the year.

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Excess cash flow	**3,546**	25,508	**10,976**	44,743
70% of excess cash flow	**2,482**	17,856	**7,683**	31,320
Deduct:				
Dividends paid to shareholders	**(9,498)**	(7,656)	**(18,951)**	(15,292)
Repurchase of shares under the NCIB	**(3,143)**	(1,579)	**(3,143)**	(1,579)
Remaining Distributable Balance under ROCS	**(10,159)**	8,621	**(14,411)**	14,449

Normal Course Issuer Bid

During the third quarter of 2023, the TSX approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,552,810 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 2, 2023. The NCIB commenced on August 16, 2023 and will terminate on August 15, 2024. 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, 358,300 common shares were purchased by the Corporation for $3.1 million and cancelled in the six-month period ended June 30, 2024 (2023 – 267,800 shares, $1.6 million).

The Corporation intends to make an application to the TSX for renewal of its NCIB for a further one-year term and, subject to TSX approval, 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.

Capital Spending

In the second quarter of 2024, the Corporation spent $26.8 million in capital expenditures, of which $24.5 million was spent on growing the Corporation's fleet of drilling equipment, $2 million was spent to replace retired assets, and $0.2 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $7.4 million, the Corporation's net capital expenditures(2) for the 2024-quarter were $19.4 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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Growth capital expenditures(3)	**24,513**	4,931	**48,737**	14,885
Maintenance capital expenditures(3) from asset retirements	**2,029**	3,860	**6,170**	8,718
Maintenance capital expenditures(3) from downhole equipment losses	**238**	3,281	**1,513**	7,051
	26,780	12,072	**56,420**	30,654
Deduct:				
Proceeds on disposition of drilling equipment	**(7,409)**	(8,589)	**(19,710)**	(21,007)
Net capital expenditures(2)	**19,371**	3,483	**36,710**	9,647

As at June 30, 2024, the Corporation had capital commitments to purchase drilling and other equipment for $18.6 million, $14.1 million of which is growth capital allocated as follows: $3.6 million for performance drilling motors, $3 million for Velocity systems, $4 million for RSS, and $3.5 million for other equipment. The majority of equipment on order as at June 30, 2024 is expected to be delivered within the year.

The approved capital expenditure budget for the 2024-year, excluding proceeds on disposition of drilling equipment, is $75 million, which includes $5 million of carryover from the 2023 budget. Of the total expenditures, $62.8 million is expected to be allocated to growth capital and the remaining $12.2 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 Corporation currently possesses approximately 832 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", 9.00", 9.62", and 12.00" Atlas motors, and 128 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 73 RSS tools and the only fleet currently comprised of both the PowerDrive Orbit and iCruise systems.

Non-GAAP and Other Financial Measures

Throughout this document, 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 document 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 June 30,			Six-month periods ended June 30,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**143,084**	139,756	2	**298,142**	294,229	1
Motor rental	**10,012**	12,641	(21)	**18,258**	23,502	(22)
Sale of motor equipment and parts	**1,134**	3,221	(65)	**3,953**	3,910	1
Total revenue	**154,230**	155,618	(1)	**320,353**	321,641	-

In the second quarter of 2024, the Corporation's consolidated revenue was $154.2 million, a 1 percent decrease as compared to the second quarter record of $155.6 million achieved in 2023. For the six-month period ended June 30, 2024, the Corporation generated consolidated revenue of $320.4 million, relatively flat as compared to the same 2023-period which generated consolidated revenue of $321.6 million.

The second quarter of 2024 saw a slight softening in the US industry rig count. There was an average of 586 horizontal and directional rigs operating per day, 4 percent lower compared to the daily average of 610 horizontal and directional rigs in the first quarter of 2024; and quarter-over-quarter the daily average decreased 16 percent from 701 rigs in the second quarter of 2023. In Canada, industry horizontal and directional drilling activity (as measured by drilling days) was 11,693 days in the 2024-quarter, a 17 percent increase from 10,028 days in the same 2023-quarter. With both the Canadian and US division generating improved activity over the industry trends, and the strength in Canadian industry activity offsetting the impacts of the softer US rig count, PHX Energy's consolidated activity levels for the three-month ended June 30, 2024 increased by 5 percent to 6,828 days compared to 6,526 days in the same 2023 period. For the six-month period ended June 30, 2024, consolidated operating days increased by 3 percent to 14,853 from 14,480 days in the corresponding 2023-period.

In both the three and six-month periods of 2024, average consolidated revenue per day(3) for directional drilling services were relatively flat. Quarter-over-quarter, average consolidated revenue per day(3) declined by 2 percent to $20,957 from $21,417 and in the first half of the 2024-year, average consolidated revenue per day decreased 1 percent to $20,074 from $20,320 in same 2023-period. In both 2024-periods, PHX Energy's Canadian activity increased as a portion of its consolidated activity and as a result, a greater percentage of consolidated activity was at the lower average revenue per day for directional drilling services in Canada.

In the 2024 three-month period, revenue generated by the Atlas motor rental division declined by 21 percent to $10 million from $12.6 million in the same 2023-period. In the 2024 six-month period, revenue generated by the Atlas motor rental division declined by 22 percent to $18.3 million from $23.5 million in the same 2023-period. These decreases were largely driven by the softer US industry rig count.

For the three and six-month periods ended June 30, 2024, revenue of $1.1 million and $4 million, respectively, were generated from the sale of Atlas motors and parts (2023 – $3.2 million and $3.9 million, respectively).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2024	2023	% Change	**2024**	2023	% Change
Direct costs	**126,456**	119,870	5	**255,500**	251,858	1
Depreciation & amortization drilling and other equipment (included in direct costs)	**11,142**	9,621	16	**21,461**	18,938	13
Depreciation & amortization right-of-use asset (included in direct costs)	**857**	827	4	**1,706**	1,235	38
Gross profit as a percentage of revenue excluding depreciation & amortization(1)	**26%**	30%		**27%**	28%	

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-month period, direct costs increased by 5 percent to $126.5 million from $120 million in the corresponding 2023-period. Apart from higher depreciation and amortization expenses on drilling and other equipment, greater direct costs in the 2024-quarter were largely due to increased equipment rentals associated with RSS activity in Canada and greater equipment repair costs. In the first half of the 2024-year, direct costs, like consolidated revenue, were relatively flat compared to the corresponding 2023-period.

For the three and six-month periods ended June 30, 2024, depreciation and amortization expenses on drilling and other equipment increased by 16 percent and 13 percent, respectively. The increase in both 2024-periods was primarily driven by the volume of fixed assets acquired as part of PHX Energy's 2023 and 2024 capital expenditure program.

In the three and six-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 30 percent and 28 percent in the corresponding 2023-period. Lower overall average revenue per day and higher equipment repair costs and rentals mainly contributed to the decrease in profitability in both 2024-periods.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2024	2023	% Change	**2024**	2023	% Change
Selling, general and administrative ("SG&A") costs	**13,824**	15,522	(11)	**34,841**	31,078	12
Cash-settled share-based compensation (included in SG&A costs)	**1,403**	2,556	(45)	**7,113**	3,930	81
Equity-settled share-based compensation (included in SG&A costs)	**181**	186	(3)	**281**	287	(2)
SG&A costs excluding share-based compensation as a percentage of revenue(1)	**8%**	8%		**9%**	8%	

For the three-month period ended June 30, 2024, SG&A costs were $13.8 million, a decrease of 11 percent as compared to $15.5 million in the corresponding 2023-period. Lower SGA costs in the 2024 three-month period are mainly attributable to the 45 percent decrease in cash-settled share-based compensation expense when compared to the 2023-quarter. For the six-month period ended June 30, 2024, SG&A costs were $34.8 million, an increase of 12 percent as compared to $31.1 million in the corresponding 2023-period. Higher SG&A costs in the 2024 six-month period were primarily due to greater cash-settled share-based compensation and personnel-related costs in the first quarter of 2024.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three and six-month periods ended June 30, 2024, the related compensation expense recognized by PHX Energy was $1.4 million (2023 - $2.6 million) and $7.1 million (2023 - $3.9 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 1,563,114 retention awards outstanding as at June 30, 2024 (2023 – 2,100,746). Excluding share-based compensation, SG&A costs as a percentage of revenue(1) in the 2024 three and six-month periods were 8 percent and 9 percent, respectively, as compared to 8 percent in both corresponding 2023-periods.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2024	2023	% Change	**2024**	2023	% Change
Research and development expense	**1,409**	1,314	7	**2,612**	2,571	2

For the three and six-month periods ended June 30, 2024, PHX Energy's research and development ("R&D") expenditures were $1.4 million (2023 - $1.3 million) and $2.6 million (2023 - $2.6 million), respectively. Increased R&D expenditures in the 2024 three month-period were mainly due to greater prototype expenses incurred to support key projects and rising personnel related costs.

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2024	2023	% Change	**2024**	2023	% Change
Finance expense	**467**	709	(34)	**801**	1,376	(42)
Finance expense lease liabilities	**531**	564	(6)	**1,072**	1,140	(6)

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three and six-month periods ended June 30, 2024, finance expenses decreased to $0.5 million (2023 - $0.7 million) and $0.8 million (2023 - $1.4 million), respectively, mainly due to lower amounts of loans and borrowings outstanding in both 2024-periods.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three and six-month periods ended June 30, 2024, finance expense lease liabilities decreased by 6 percent in both periods, primarily due to expired leases.

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Net gain on disposition of drilling equipment	**5,401**	5,593	**14,287**	15,549
Foreign exchange gains (losses)	**(159)**	897	**(287)**	920
Bad debts	**-**	(1,223)	**-**	(1,223)
Other income	**5,242**	5,267	**13,999**	15,246

For the three and six-month periods ended June 30, 2024, the Corporation recognized other income of $5.2 million and $14 million, respectively (2023 - $5.3 million and $15.2 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, similar instances of high dollar valued downhole equipment losses occurred as compared to the corresponding 2023-periods which resulted in comparable levels of net gains on disposition of drilling and other equipment recognized.

Foreign exchange losses of $0.2 million and $0.3 million in the three and six-month periods of 2024, respectively (2023 – gains of $0.9 million in both periods), were primarily due to the revaluation of USD-denominated trade and other payables.

(Stated in thousands of dollars except percentages)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Provision for income taxes	**3,872**	4,797	**9,160**	8,338
Effective tax rates(3)	**23%**	21%	**23%**	17%

For the three-month period ended June 30, 2024, the Corporation reported income tax provision of $3.9 million (2023 - $4.8 million), of which, $8.1 million was current and a recovery of $4.2 million was deferred. For the six-month period ended June 30, 2024, PHX Energy recognized provision for income taxes of $9.2 million (2023 - $8.3 million), of which, $10.1 million was current and a recovery of $0.9 million was deferred. In both 2024-periods, PHX Energy's effective tax rate(3) is 23 percent which is in line with 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 2023 three and six-month periods, PHX Energy's effective tax rate of 21 percent and 17 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 Second Quarter 2024 MD&A filed on Sedar+ 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 June 30,			Six-month periods ended June 30,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**105,226**	109,564	(4)	**208,632**	224,310	(7)
Motor rental	**9,630**	12,169	(21)	**17,555**	22,401	(22)
Sale of motor equipment and parts	**1,134**	3,221	(65)	**3,953**	3,910	1
Total US revenue	**115,990**	124,954	(7)	**230,140**	250,621	(8)
Reportable segment profit before tax	**14,223**	24,037	(41)	**30,818**	39,959	(23)

In the second quarter and first half of 2024, US industry rig count continued to soften and trended lower than its five-year average. This softening led to weakened levels of drilling and motor rental activities for the US division and consequently to lower levels of revenue and profitability. For the three and six-month periods ended June 30, 2024, the US segment's revenue was $116 million and $230.1 million, a decline of 7 percent and 8 percent as compared to $125 million and $250.6 million in the corresponding 2023-periods.

The US division's activity in both 2024-periods did not contract to the same extent as the industry, and this resilience was driven by the reliable performance, strong demand and reputation of the Corporation's premium technologies and team of operating and marketing personnel. In the 2024-quarter, there were 586 active horizontal and directional rigs per day in the US industry which is a 16 percent decrease from the 701 rigs per day in the second quarter of 2023 and 4 percent lower than the industry activity recorded in the first quarter of 2024. The Corporation's US directional drilling activity in the second quarter was only down 5 percent, 4,146 operating days, when compared to 4,364 days in the same 2023-quarter and 1 percent as compared to the 4,168 days in the first quarter of 2024. For the six-month period ended June 30, 2024, PHX Energy's US drilling activity decreased 9 percent to 8,313 operating days as compared to 9,184 days in the same 2023-period whereas US industry horizontal and directional rig count decreased by 17 percent. In the first half of 2024, the US division was active in the Permian, Scoop/Stack, Marcellus, Utica, and Bakken basins.

In both the three and six-month periods of 2024, the US division's average revenue per day[3] for directional drilling services was relatively flat. Quarter-over quarter, the US division's average revenue per day for directional drilling services marginally increased by 1 percent to $25,383 compared to $25,109 and in the 2024 six-month period, average revenue per day for directional drilling services increased 3 percent to $25,097 from $24,425 in the same 2023-period. The strong US dollar in both 2024-periods favorably affected the average revenue per day. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services decreased by 1 percent and increased by 2 percent in the 2024 three and six-month periods, respectively.

In the second quarter and first half of 2024, in line with the softening US rig count, the US segment's Atlas motor rental activity was weaker. The Corporation generated motor rental revenue of $9.6 million and $17.6 million in the three and six-month periods of 2024, respectively. This represents decreases of 21 percent and 22 percent, respectively, from the $12.2 million and $22.4 million generated in the corresponding 2023-periods.

In the 2024 three and six-month periods, PHX Energy generated revenue of $1.1 million and $4 million from the sale of Atlas motors and parts (2023 - $3.2 million and $3.9 million, respectively).

For the three and six-month periods ended June 30, 2024, the US segment's reportable segment income before tax were $14.2 million and $30.8 million, a decrease of 41 percent and 23 percent as compared to $24 million and $40 million in the corresponding 2023-periods. Apart from lower activity, the decline in profitability was primarily due to rising personnel-related costs, higher equipment repairs and rentals, and greater depreciation expenses in the 2024-periods.

Canada

(Stated in thousands of dollars)

	Three-month periods ended June 30,			Six-month periods ended June 30,		
	2024	2023	% Change	**2024**	2023	% Change
Directional drilling services	**37,858**	30,192	25	**89,510**	69,919	28
Motor rental	**382**	472	(19)	**703**	1,101	(36)
Total Canadian revenue	**38,240**	30,664	25	**90,213**	71,020	27
Reportable segment profit before tax	**2,549**	2,167	18	**11,223**	10,462	7

In the 2024-quarter, the Corporation's Canadian operations generated revenue of $38.2 million, its highest level of second quarter revenue on record and a 25 percent increase compared to $30.7 million generated in the 2023-quarter. In the 2024 six-month period, Canadian division revenue was $90.2 million, a 27 percent increase as compared to $71 million in the 2023-period.

In both 2024-periods, PHX Energy's Canadian segment's activity growth far outpaced that of the industry. For the three and six-month periods ended June 30, 2024, the Canadian segment's operating days grew by 24 percent and 23 percent to 2,682 days and 6,540 days, respectively, as compared to 2,162 days and 5,297 days in the corresponding 2023-periods. In comparison, industry horizontal and directional drilling activity (as measured by drilling days) increased by 17 percent to 11,693 days in the 2024 three-month period and by 4 percent to 29,065 days in the 2024 six-month period. Activity growth in the 2024-periods were largely attributable to the Canadian segment's increased RSS activity and client base expansion. In the first half of 2024, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Ellerslie, Charlie Lake, and Scallion basins.

For the three and six-month period ended June 30, 2024, the Canadian division's average revenue per day(3) for directional drilling services increased by 17 percent and 10 percent, respectively, to $16,303 and $14,585 from $13,964 and $13,201 in the corresponding 2023-periods. These increases were mainly due to greater RSS activity in both 2024-periods.

In the second quarter and first half of 2024, the Corporation's Canadian division recognized reportable segment profit before tax of $2.5 million (2023 – $2.2 million) and $11.2 million (2023 – $10.5 million), respectively. Despite increased revenue and activity, the increase in profitability was only marginal mainly due to higher depreciation expenses, greater equipment repair costs, and increased rentals associated with RSS activity growth.

Investing Activities

Net cash used in investing activities for the three-month period ended June 30, 2024 was $27.7 million as compared to $5.7 million in the 2023-period. During the second quarter of 2024, the Corporation spent $24.5 million (2023 - $4.9 million) to grow the Corporation's fleet of drilling equipment, $2 million (2023 - $3.9 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment, and $0.2 million was used to replace equipment lost downhole during drilling operations (2023 - $3.3 million). With proceeds on disposition of drilling and other equipment of $7.4 million (2023 - $8.6 million), the Corporation's net capital expenditures(2) for the 2024-quarter were $19.4 million (2023 - $3.5 million).

(Stated in thousands of dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Growth capital expenditures(3)	**24,513**	4,931	**48,737**	14,885
Maintenance capital expenditures(3) from asset retirements	**2,029**	3,860	**6,170**	8,718
Maintenance capital expenditures(3) from downhole equipment losses	**238**	3,281	**1,513**	7,051
	26,780	12,072	**56,420**	30,654
Deduct:				
Proceeds on disposition of drilling equipment	**(7,409)**	(8,589)	**(19,710)**	(21,007)
Net capital expenditures(2)	**19,371**	3,483	**36,710**	9,647

The 2024-period capital expenditures comprised of:

- $11.6 million in downhole performance drilling motors;
- $7.8 million in RSS;
- $6.3 million in MWD systems and spare components; and
- $1.1 million in machinery and equipment and other assets.

The change in non-cash working capital balances of $8.3 million (use of cash) for the three-month period ended June 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 $2.2 million (use of cash) for the three-month period ended June 30, 2023.

Financing Activities

For the three-month period ended June 30, 2024, net cash used in financing activities was $11.3 million as compared to $12 million in the 2023-period. In the 2024-period:

- dividends of $9.5 million were paid to shareholders;
- 358,300 shares were repurchased and cancelled under the NCIB for $3.1 million;
- payments of $0.9 million were made towards lease liabilities;
- $2.1 million net drawings were made from the Corporation's syndicated credit facility; and
- 50,000 common shares were issued from treasury for proceeds of $0.1 million upon the exercise of share options.

Capital Resources

As of June 30, 2024, the Corporation had CAD $9.7 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $13.8 million. As at June 30, 2024, the Corporation had CAD $85 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 June 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 previously announced preliminary 2024 capital expenditure program of $70 million, PHX Energy anticipates spending $75 million of capital expenditures in 2024. Of the total expenditures, $62.8 million is targeted to be spent on growth and $12.2 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.

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

As at June 30, 2024, the Corporation has commitments to purchase drilling and other equipment for $18.6 million. The majority of deliveries are expected to occur throughout the remainder of the 2024-year.

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 sales offices and service facilities in Albania, and an administrative office in Nicosia, Cyprus. The Corporation also supplies technology to the Middle East regions.

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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Condensed Consolidated Interim Statements of Financial Position

(Stated in thousands of dollars, unaudited)

	June 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash	**$ 13,798**	$ 16,433
Trade and other receivables	**114,756**	121,334
Inventories	**63,727**	63,173
Prepaid expenses	**4,154**	2,409
Current tax assets	**-**	3,691
Total current assets	**196,435**	207,040
Non-current assets:		
Drilling and other long-term assets	**162,063**	128,263
Right-of-use assets	**26,014**	27,056
Intangible assets	**13,292**	14,200
Investments	**2,171**	3,001
Other long-term assets	**1,332**	1,284
Deferred tax assets	**8,066**	4,650
Total non-current assets	**212,938**	178,454
Total assets	**$ 409,373**	$ 385,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	**$ 103,086**	$ 100,438
Dividends payable	**9,437**	9,453
Lease liability	**3,386**	3,234
Current tax liability	**5,474**	-
Total current liabilities	**121,383**	113,125
Non-current liabilities:		
Lease liability	**32,884**	33,972
Loans and borrowings	**9,649**	7,564
Deferred tax liability	**19,927**	16,822
Other	**1,659**	4,042
Total non-current liabilities	**64,119**	62,400
Equity:		
Share capital	**220,633**	222,653
Contributed surplus	**7,147**	7,168
Deficit	**(34,264)**	(45,695)
Accumulated other comprehensive income	**30,355**	25,843
Total equity	**223,871**	209,969
Total liabilities and equity	**$ 409,373**	$ 385,494

Condensed Consolidated Interim Statements of Comprehensive Earnings

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Revenue	**$ 154,230**	$ 155,618	**$ 320,353**	$ 321,641
Direct costs	**126,456**	119,870	**255,500**	251,858
Gross profit	**27,774**	35,748	**64,853**	69,783
Expenses:				
Selling, general and administrative expenses	**13,824**	15,523	**34,841**	31,078
Research and development expenses	**1,409**	1,314	**2,612**	2,571
Finance expense	**467**	709	**801**	1,376
Finance expense lease liability	**531**	564	**1,072**	1,140
Other income	**(5,242)**	(5,267)	**(13,999)**	(15,246)
	10,989	12,843	**25,327**	20,919
Earnings before income taxes	**16,785**	22,905	**39,526**	48,864
Provision for income taxes				
Current	**8,067**	5,251	**10,053**	7,975
Deferred	**(4,195)**	(454)	**(893)**	363
	3,872	4,797	**9,160**	8,338
Net earnings	**12,913**	18,108	**30,366**	40,526
Other comprehensive income				
Foreign currency translation, net of tax	**1,769**	(4,522)	**5,342**	(4,629)
Equity investment loss through AOCI	**(830)**	-	**(830)**	-
Total comprehensive earnings	**$ 13,852**	$ 13,586	**$ 34,878**	$ 35,897
Earnings per share – basic	**$ 0.27**	$ 0.35	**$ 0.64**	$ 0.79
Earnings per share – diluted	**$ 0.26**	$ 0.35	**$ 0.64**	$ 0.77

Condensed Consolidated Interim Statements of Cash Flows

(Stated in thousands of dollars, unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Cash flows from operating activities:				
Earnings	**$ 12,913**	$ 18,108	**$ 30,366**	$ 40,526
Adjustments for:				
Depreciation and amortization	**11,142**	9,621	**21,461**	18,938
Depreciation and amortization right-of-use asset	**857**	827	**1,706**	1,235
Provision for income taxes	**3,872**	4,797	**9,160**	8,338
Unrealized foreign exchange (gain) loss	**86**	(10)	**234**	(36)
Net gain on disposition of drilling equipment	**(5,401)**	(5,593)	**(14,287)**	(15,549)
Equity-settled share-based payments	**181**	186	**281**	287
Finance expense	**467**	709	**801**	1,376
Finance expense lease liability	**531**	564	**1,072**	1,140
Provision for bad debts	**-**	1,223	**-**	1,223
Provision for inventory obsolescence	**196**	379	**731**	648
Interest paid on lease liability	**(531)**	(564)	**(1,072)**	(1,140)
Interest paid	**(283)**	(521)	**(488)**	(1,034)
Income taxes paid	**(545)**	(1,324)	**(729)**	(1,458)
Change in non-cash working capital	**15,832**	(5,770)	**1,248**	(28,152)
Net cash from operating activities	**39,317**	22,632	**50,484**	26,342
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**7,409**	8,589	**19,710**	21,007
Acquisition of drilling and other equipment	**(26,780)**	(12,071)	**(56,420)**	(30,654)
Change in non-cash working capital	**(8,287)**	(2,194)	**4,182**	(1,053)
Net cash used in investing activities	**(27,658)**	(5,676)	**(32,528)**	(10,700)
Cash flows from financing activities:				
Dividends paid to shareholders	**(9,498)**	(7,656)	**(18,951)**	(15,292)
Repurchase of shares under the NCIB	**(3,143)**	(1,579)	**(3,143)**	(1,579)
Payments of lease liability	**(865)**	(693)	**(1,695)**	(1,455)
Net proceeds from (net repayment of) loans and borrowings	**2,060**	(2,157)	**2,000**	5,168
Proceeds from exercise of options	**110**	83	**821**	349
Purchase of shares held in trust	**-**	-	**-**	(612)
Net cash used in financing activities	**(11,336)**	(12,002)	**(20,968)**	(13,421)
Net increase (decrease) in cash	**323**	4,954	**(3,012)**	2,221
Cash, beginning of period	**13,380**	15,502	**16,433**	18,247
Effect of movements in exchange rates on cash held	**95**	(376)	**377**	(388)
Cash, end of period	**$ 13,798**	$ 20,080	**$ 13,798**	$ 20,080

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, PHX Energy's intentions with respect to the NCIB, its renewal, purchases thereunder and the effects of repurchases under the NCIB, the anticipated industry activity and demand for the Corporation's services and technologies in North America, the projected capital expenditures budget for 2024 ,and how the budget will be allocated and funded, the timeline for delivery of equipment on order, and the anticipated continuation of PHX Energy's quarterly dividend program and the amounts of dividends.

The above are stated under the headings: "Financial Results", "Dividends and ROCS", "Capital Spending", 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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Earnings:	**12,913**	18,108	**30,366**	40,526
Add:				
Depreciation and amortization drilling and other equipment	**11,142**	9,621	**21,461**	18,938
Depreciation and amortization right-of-use asset	**857**	827	**1,706**	1,235
Provision for income taxes	**3,872**	4,797	**9,160**	8,338
Finance expense	**467**	709	**801**	1,376
Finance expense lease liability	**531**	564	**1,072**	1,140
Equity-settled share-based payments	**181**	186	**281**	287
Unrealized foreign exchange loss (gain)	**86**	(10)	**234**	(36)
Adjusted EBITDA	**30,049**	34,802	**65,081**	71,804

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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Earnings:	**12,913**	18,108	**30,366**	40,526
Add:				
Depreciation and amortization drilling and other equipment	**11,142**	9,621	**21,461**	18,938
Depreciation and amortization right-of-use asset	**857**	827	**1,706**	1,235
Provision for income taxes	**3,872**	4,797	**9,160**	8,338
Finance expense	**467**	709	**801**	1,376
Finance expense lease liability	**531**	564	**1,072**	1,140
Equity-settled share-based payments	**181**	186	**281**	287
Unrealized foreign exchange loss (gain)	**86**	(10)	**234**	(36)
Cash-settled share-based compensation expense	**1,403**	2,556	**7,113**	3,930
Adjusted EBITDA excluding cash-settled share-based compensation expense	**31,452**	37,358	**72,194**	75,734

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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Revenue	**154,230**	155,618	**320,353**	321,641
Direct costs	**126,456**	119,870	**255,500**	251,858
Gross profit	**27,774**	35,748	**64,853**	69,783
Depreciation & amortization drilling and other equipment (included in direct costs)	**11,142**	9,621	**21,461**	18,938
Depreciation & amortization right-of-use asset (included in direct costs)	**857**	827	**1,706**	1,235
	39,773	46,196	**88,020**	89,956
Gross profit as a percentage of revenue excluding depreciation & amortization	**26%**	30%	**27%**	28%

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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
SG&A Costs	**13,824**	15,522	**34,841**	31,078
Deduct:				
Share-based compensation (included in SG&A)	**1,584**	2,742	**7,394**	4,217
	12,240	12,780	**27,447**	26,861
Revenue	**154,230**	155,618	**320,353**	321,641
SG&A costs excluding share-based compensation as a percentage of revenue	**8%**	8%	**9%**	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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Cash flows from operating activities	**39,317**	22,633	**50,484**	26,341
Add (deduct):				
Changes in non-cash working capital	**(15,832)**	5,770	**(1,248)**	28,152
Interest paid	**283**	521	**488**	1,034
Income taxes paid	**545**	1,324	**729**	1,458
Funds from operations	**24,313**	30,248	**50,453**	56,985

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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Cash flows from operating activities	**39,317**	22,633	**50,484**	26,341
Add (deduct):				
Changes in non-cash working capital	**(15,832)**	5,770	**(1,248)**	28,152
Interest paid	**283**	521	**488**	1,034
Income taxes paid	**545**	1,324	**729**	1,458
Cash payment on leases	**(1,396)**	(1,257)	**(2,767)**	(2,595)
	22,917	28,991	**47,686**	54,390
Proceeds on disposition of drilling equipment	**7,409**	8,589	**19,710**	21,007
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**(2,267)**	(7,141)	**(7,683)**	(15,769)
Net proceeds	**5,142**	1,448	**12,027**	5,238
Growth capital expenditures	**(24,513)**	(4,931)	**(48,737)**	(14,885)
Excess cash flow	**3,546**	25,508	**10,976**	44,743

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)

	June 30, 2024	December 31, 2023
Current assets	**196,435**	207,040
Deduct:		
Current liabilities	**(121,383)**	(113,125)
Working capital	**75,052**	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)

	June 30, 2024	December 31, 2023
Loans and borrowings	**9,649**	7,564
Deduct:		
Cash and cash equivalents	**(13,798)**	(16,433)
Net debt (Net cash)	**(4,149)**	(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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Growth capital expenditures	**24,513**	4,931	**48,737**	14,885
Maintenance capital expenditures from asset retirements	**2,029**	3,860	**6,170**	8,718
Maintenance capital expenditures from downhole equipment losses	**238**	3,281	**1,513**	7,051
	26,780	12,072	**56,420**	30,654
Deduct:				
Proceeds on disposition of drilling equipment	**(7,409)**	(8,589)	**(19,710)**	(21,007)
Net capital expenditures	**19,371**	3,483	**36,710**	9,647

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 June 30,		Six-month periods ended June 30,	
	2024	2023	**2024**	2023
Excess cash flow	**3,546**	25,508	**10,976**	44,743
70% of excess cash flow	**2,482**	17,856	**7,683**	31,320
Deduct:				
Dividends paid to shareholders	**(9,498)**	(7,656)	**(18,951)**	(15,292)
Repurchase of shares under the NCIB	**(3,143)**	(1,579)	**(3,143)**	(1,579)
Remaining Distributable Balance under ROCS	**(10,159)**	8,621	**(14,411)**	14,449

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.