PHX
ENERGY SERVICES CORP.

Q3 2022

Quarterly Report

PHX Energy Services Corp.

Third Quarter Report for the three and nine-month periods ended September 30, 2022 and 2021

The following Management's Discussion and Analysis ("MD&A") of the financial condition, results of operations, and cash flow of PHX Energy Services Corp. ("PHX Energy" or the "Corporation") should be read in conjunction with the Corporation's 2021 annual report, including the MD&A, and audited consolidated financial statements and the accompanying notes contained therein as well as other sections contained within the Corporation's 2021 annual report, and the Corporation's 2022 unaudited interim third quarter report, including the unaudited condensed consolidated interim financial statements and the accompanying notes contained therein as well as other sections contained within the Corporation's 2022 third quarter report. Readers can also obtain additional information on the Corporation including its Information Circular and Annual Information Form ("AIF") filed on SEDAR at www.sedar.com. This MD&A has been prepared taking into consideration information available up to and including November 7, 2022.

PHX Energy's Interim Financial Report for the three and nine-month periods ended September 30, 2022 and 2021 has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A and Interim Financial Report was reviewed by PHX Energy's Audit Committee and approved by PHX Energy's Board of Directors (the "Board") on November 7, 2022.

This MD&A contains Forward-Looking Information and Non-GAAP Financial Measures. Please refer to the "Cautionary Statement Regarding Forward-Looking Information and Statements" section below. Please refer to the "Non-GAAP Measures" section of this MD&A for applicable definitions and reconciliations.

Third Quarter Highlights

- Consolidated revenue of $142.4 million is the highest third quarter revenue on record and the second highest quarterly revenue in the Corporation's history.
- The Corporation's adjusted EBITDA[(1)] from continuing operations increased to $27.3 million, 19 percent of consolidated revenue[(1)]. This is the highest third quarter adjusted EBITDA on record. Included in the 2022-quarter's adjusted EBITDA is $5.2 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations in the third quarter was $32.5 million, 23 percent of consolidated revenue.
- Earnings from continuing operations of $13.5 million are three times the earnings generated in the 2021-quarter and the best third quarter result in the Corporation's history.
- For the third consecutive quarter, PHX Energy's US division generated its highest quarterly revenue on record. US revenue was $110.2 million in the third quarter of 2022, representing 77 percent of consolidated revenue.
- PHX Energy's Canadian division reported its highest level of quarterly revenue since the first quarter of 2015.
- The Corporation generated free cash flow[(1)] of $19.3 million, an 109 percent increase over the third quarter of 2021.

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

- A strengthening US dollar positively impacted the quarter's financial results.
- With the robust industry activity anticipated to continue, the Board of Directors (the "Board") has approved a preliminary 2023 capital expenditures budget of $50 million, which will be primarily dedicated to expanding and maintaining the fleet of high performance technologies. The Corporation anticipates the high demand for its premium technologies to continue and believes placing advanced orders for equipment in 2023 will be advantageous.
- We are pleased to announce that the Board approved a Return of Capital Strategy ("ROCS" or the "Program") that establishes the Corporation's intention for creating unprecedented shareholder rewards. Highlights of the ROCS include:
    - Maintaining a strong balance sheet with little to no bank debt.
    - Growth capital expenditures will be available for expanding the fleet in the most attractive basins.
    - Base dividends will be a focus.
    - Special dividends can be triggered with available excess cash.
    - Share buy backs may be considered if deemed accretive.
- The Program approved by the Board will allow up to 70 percent of 2023 excess cash flow (defined as free cash flow less growth capital) to be used for shareholder rewards.
- In light of continued strong financial performance, PHX Energy's Board has approved a further increase to the quarterly dividend to $0.15 per share effective for the dividend payable to shareholders of record at the close of business on December 31, 2022. This is the fourth dividend increase since the dividend program was reinstated in December 2020 with a quarterly dividend of $0.025. On October 17, 2022, a quarterly dividend of $0.10 per common share was paid to shareholders.
- The Corporation maintained a strong financial position with working capital[(1)] of $89.2 million and with its credit facility capacity in excess of $56 million.
- Despite the strong results, the Corporation was adversely impacted by supply chain challenges and inflation which caused increased costs and component shortages with certain suppliers which constrained the level of activity and equipment utilization. These challenges are expected to persist into 2023 and the Corporation will continue to leverage its strong position and implement strategies to mitigate the impacts to its operations.

(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,		
	2022	2021	% Change	**2022**	2021	% Change
Operating Results – Continuing Operations	***(unaudited)***	*(unaudited)*		***(unaudited)***	*(unaudited)*	
Revenue	**142,418**	93,338	53	**377,987**	237,650	59
Earnings	**13,475**	4,206	220	**23,978**	13,987	71
Earnings per share – diluted	**0.27**	0.08	238	**0.48**	0.27	78
Adjusted EBITDA [1]	**27,315**	14,108	94	**58,845**	42,755	38
Adjusted EBITDA per share – diluted [1]	**0.53**	0.28	89	**1.16**	0.83	40
Adjusted EBITDA as a percentage of revenue [1]	**19%**	15%		**16%**	18%	
Cash Flow – Continuing Operations						
Cash flows from operating activities	**21,627**	22,301	(3)	**29,367**	32,580	(10)
Funds from operations [1]	**22,711**	13,337	70	**47,413**	37,438	27
Funds from operations per share – diluted [1]	**0.44**	0.26	69	**0.94**	0.72	31
Dividends paid per share	**0.075**	0.025	200	**0.200**	0.075	167
Dividends paid	**3,797**	1,260	201	**10,069**	3,785	166
Capital expenditures	**18,631**	6,751	176	**52,051**	24,159	115
Free cash flow [1]	**19,312**	9,237	109	**40,048**	32,231	24
Financial Position (unaudited)				**Sept 30'22**	Dec 31, '21	
Working capital [1]				**89,228**	57,872	54
Net debt (Net cash) [1]				**(3,024)**	(24,829)	(88)
Shareholders' equity				**165,017**	134,432	23
Common shares outstanding				**50,708,295**	47,978,662	6

Non-GAAP Measures

Throughout this MD&A, PHX Energy uses certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP"). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA per share, adjusted EBITDA as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization and government grants, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, funds from operations, funds from operations per share, free cash flow, net debt, and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by

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other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP Measures" section following the Outstanding Corporation Share Data section of this MD&A for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Outlook

The momentum from the first half of the year carried over into our third quarter, and once again we achieved strong quarterly financial results, with some measures being the highest in our history. Intense demand for our premium technologies continued to drive these achievements, and our record-breaking performance solidified our position as an outlier in our industry, both in terms of our balance sheet strength and the shareholder value we have created.

- Our record quarterly results were hindered by supply chain issues for certain key components, and this delayed the manufacturing of some premium technologies. We believe that without these issues, our operating days could have been approximately 5-10 percent greater in the quarter.
- Although capital equipment is expected to be delivered this quarter, we will continue to face supply chain challenges related to deploying additional capacity for our high performance fleets. Our team is working diligently to overcome these, and we believe we will see the full benefit from our 2022 capital expenditures program by the end of the first quarter of 2023.
- We foresee the favorable industry conditions in 2022 continuing into 2023, and believe the 2023 North American rig count will be 1,000-1,100 active rigs per day. Although there are indicators of a possible recession, we believe that with the current energy supply demand imbalance and geopolitical environment it is likely to somewhat shelter our industry as compared to the severity of the past few downturns.
- Bullish demand for premium technologies continues as Operators push for superior operational performance, and we expect to gain additional market share at favorable rates as this demand outpaces the inventory of premium technology. Our fleet is currently operating at maximum utilization and we foresee this continuing.
- Our proactive strategy of placing capital expenditure orders well in advance was paramount to the continued achievement of record results in 2022, and we plan on continuing on this path. The Board approved a preliminary 2023 capital expenditures budget of $50 million, which is one of the highest levels in our history, to ensure we can place additional orders for both growth and maintenance capital to remain equipped for future successes.
- We are committed to maintaining one of the strongest balance sheets in the sector, leveraging our operational strategies and growth to facilitate opportunities to create shareholder rewards.

- Over the past five years we have leveraged various avenues to create shareholder value, which include reducing the shares outstanding through NCIB programs in a time when our share price was advantageous, reinstating our dividend and subsequently increasing the amount paid per share to ensure our shareholders are benefiting from our strong position.
- We are pleased that once again we are positioned to increase our quarterly dividend and announce the ROCS program which we anticipate will add to the current dividend program in 2023. The new level of dividend payment that will commence for the dividend payable January 16, 2023 equates to approximately $30.5 million annually based on the 50.8 million shares outstanding.
- We believe we will be able to reward shareholders through ROCS in 2023 while we continue to grow the business through capital expenditures in a favourable market where our technologies are in high demand.

We are steadfast in our commitment to remaining the leading provider in our sector and continuing to grow in what is a unique upcycle in the industry. We are an outlier within our industry, providing Operators best in class performance and our shareholders unmatched rewards. We believe we are strongly positioned to continue these successes in 2023 and will remain diligent on executing strategies that will continue this positive momentum.

Michael Buker, President
November 7, 2022

Financial Results

PHX Energy continued to generate record revenue and earnings despite the negative impacts of supply chain challenges, inflationary costs, and labour shortages, that became more prominent in the third quarter of 2022. The Corporation's high performance technology fleets increased in capacity, specifically Velocity Real Time-Time Systems ("Velocity"), PowerDrive Orbit Rotary Steerable Systems ("RSS"), and Atlas High Performance ("Atlas") Motors, with additional equipment received as part of the 2022 capital expenditure program. This extra capacity along with robust North American industry drilling activity helped drive growth for the Corporation in the period. However, the achieved growth was curbed by the availability of and long lead time for certain components which delayed equipment servicing and in turn limited fleet utilization.

For the three-month period ended September 30, 2022, PHX Energy's consolidated revenue from continuing operations grew to $142.4 million from $93.3 million in the comparative 2021-quarter, an increase of 53 percent. This level of revenue is the highest third quarter revenue in the Corporation's history and the second highest quarterly revenue on record. Consolidated activity reached 7,578 operating days in the 2022-quarter, 32 percent higher relative to 5,753 operating days in the 2021-period. Average revenue per day excluding US motor rentals also improved by 16 percent from $15,567 in the 2021-quarter to $18,008 in the 2022-quarter.

For the third consecutive quarter, the US division attained its highest quarterly revenue on record. In the 2022 three-month period, US revenue increased by 49 percent to $110.2 million from $74 million in the corresponding 2021-quarter. This increase in revenue is mainly attributable to the US segment's strong drilling activity which grew by 28 percent in the 2022-quarter to 4,653 operating days from 3,626 days in the 2021-quarter. The US division's revenue represented 77 percent of the Corporation's consolidated revenue from continuing operations for the period (2021 – 79 percent).

PHX Energy's Canadian segment also saw substantial improvements in revenue and activity. For the three-month period ended September 30, 2022, Canadian revenue increased by 60 percent to $31 million from $19.3 million in the corresponding 2021-period. The Canadian division recorded 2,835 operating days in the 2022-quarter, a 33 percent increase from the 2,128 operating days realized in the comparable 2021-quarter. The increase in the Canadian segment's drilling activity quarter-over-quarter was consistent with the Canadian market's activity where the average quarterly rig count increased 32 percent from 151 in the 2021-period to 199 in the 2022-period (Source: Baker Hughes).

As a result of the considerable improvements in revenue and activity, and the Corporation's ability to mitigate some of the supply chain challenges and inflationary pressures, both earnings and adjusted EBITDA from continuing operations in the 2022-quarter were the highest achieved in a third quarter. Adjusted EBITDA increased by 94 percent to $27.3 million quarter-over-quarter, 19 percent of revenue (2021-quarter - $14.1 million, 15 percent of revenue) and earnings from continuing operations of $13.5 million is three times the $4.2 million of earnings reported in the 2021-quarter. For the nine-month period ended September 30, 2022, adjusted EBITDA from continuing operations increased by 38 percent to $58.8 million (2021 – $42.8 million) and earnings from continuing operations increased by 71 percent to $24 million (2021 - $14 million). Included in the 2021 nine-month period's adjusted EBITDA and earnings from continuing operations is $8.5 million of government grants. Excluding the impact of government grants, adjusted EBITDA from continuing operations improved by 72 percent in the 2022 nine-month period. Also included in the 2022 three and nine-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $5.2 million (2021 - $3.4 million) and $17.6 million (2021 - $9.9 million), respectively. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations for the three and nine-month period ended September 30, 2022 is $32.5 million (2021 - $17.5 million) and $76.5 million (2021 - $52.7 million), respectively.

As at September 30, 2022, the Corporation continued to maintain a strong balance sheet with working capital of $89.2 million and available credit facilities in excess of $56 million.

Dividends

In light of the continued strong performance and financial results, the Board has approved another increase to the Corporation's quarterly dividend to $0.15 per common share from $0.10 per common share, commencing with the dividend payable January 16, 2023 to shareholders of record at the close of business on December 30, 2022. This is the fourth dividend increase since its re-instatement in December 2020 and is a 500 percent increase from the dividend payable on December 31, 2020.

On September 15, 2022, PHX Energy declared a cash dividend of $0.10 per common share, increased from the previous $0.075 per share, payable to shareholders of record at the close of business on September 30, 2022. An aggregate of $5.1 million was paid on October 17, 2022.

Capital Spending

In the third quarter of 2022, the Corporation spent $18.6 million on capital expenditures, which is $11.8 million greater than the expenditures of $6.8 million in the 2021-quarter. Capital expenditures for the 2022-quarter were primarily directed towards Atlas motors, Velocity systems, and RSS. Of the total capital expenditures in the 2022-quarter, $10.2 million was spent on growing the Corporation's fleet of drilling equipment and the remaining $8.4 million was spent on maintenance of the current fleet of drilling and other equipment. The Corporation funded capital spending primarily using cash flows from operations and its credit facilities when required.

As at September 30, 2022, the Corporation has commitments to purchase drilling and other equipment for $46.7 million. Majority of the purchases are expected to be delivered throughout the last quarter of the 2022-year, with the remaining anticipated in the first quarter of 2023. The full benefit of these deliveries is anticipated by the end of the first quarter of 2023. The commitments include $20 million for Velocity systems, $20.6 million for performance drilling motors primarily relating to Atlas, and $6.1 million for RSS and other machinery and equipment. As previously announced, the Board approved to increase the 2022 capital expenditure program to $85 million to allow the Corporation to proactively order materials and equipment to expand its fleet for activity in late 2022 and into 2023. Given the current supply chain environment, lead times and costs are increasing and the Corporation's ability to place advanced orders is continuing to create a competitive advantage.

In order to continue this advantageous strategy of placing advanced orders in a robust industry environment and continue to mitigate the supply chain issues expected to continue into 2023, the Board has approved a preliminary 2023 capital expenditure program of $50 million. A large portion of these expenditures are expected to be delivered in the first quarter of 2023 to support activity levels in the latter half of the year. Of the 2023 capital expenditures, $25 million is anticipated to be spent on growing PHX Energy's fleet of drilling and other equipment and $25 million on maintenance of the fleet of drilling and other equipment.

The Corporation currently possesses approximately 607 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8" and 9" Atlas motors, 112 Velocity systems, and 43 PowerDrive Orbit RSS, the largest independent fleet in North America.

COVID-19, Supply Chain Disruptions, and Inflation

In the third quarter of 2022 industry and economic conditions continued to improve as most of the COVID-19 restrictions have been lifted by governments. However, supply chain challenges escalated and continued to create shortages and inflation related to the products and services required within the energy sector, including those within the Corporation's supply chain.

These shortages resulted in increased turn-around times for servicing the Corporation's premium technologies and in turn limited equipment utilization and constrained activity growth. Inflationary pressures led to overall cost increases and have negatively impacted the Corporation's margins.

PHX Energy has been proactive with efforts to lessen the supply chain disruptions' impact on its operations. Specifically, the Corporation has maintained higher minimum safety stock levels and taken advantage of bulk discounts, and as a result, inventory levels have increased by 59 percent from $36.7 million at the end of 2021 to $58.3 million at September 30, 2022. In addition, to mitigate the impact of inflationary costs and to protect its margins, the Corporation also continues to pursue pricing increases where possible to its customers.

Additional information regarding the risks, uncertainties and impact on the Corporation's business can be found throughout this MD&A, including under the headings "Capital Spending", "Operating Costs and Expenses", "Segmented Information", and "Outlook".

Divesture of Russian Subsidiary

On June 30, 2022, PHX Energy divested Phoenix TSR LLC ("Phoenix TSR") and exited Russia. The divestiture resulted in a loss on disposition of $3.5 million and the recognition of $10.6 million in foreign exchange losses resulting from accumulated currency translation adjustments. Pursuant to the disposition of Phoenix TSR, the Corporation has terminated all presence in Russia.

Shares Held in Trust

For the three-month period ended September 30, 2022, the Corporation equity settled a portion of its outstanding Retention Awards ("RA") under its Retention Award Plan (the "RAP"). Pursuant to the RA settlement, 172,788 common shares were issued in the third quarter of the 2022-year to settle $0.9 million in RAP liabilities. The Corporation, through an independent trustee, acquires common shares on the open market from time-to-time for the potential settlement of future share-based compensation obligations. For the three-month period ended September 30, 2022, the trustee did not purchase common shares. As at September 30, 2022, 73,044 common shares are held in trust for purposes of the RAP.

Normal Course Issuer Bid

During the third quarter of 2022, 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 3,622,967 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 3, 2022. The NCIB commenced on August 16, 2022 and will terminate on August 15, 2023 or such earlier time as the NCIB is completed or terminated by PHX Energy. 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. For the nine-month period ending September 30, 2022, the Corporation did not repurchase shares through its previous and current NCIB. Pursuant to the previous NCIB, 1,499,900 common shares were purchased by the Corporation and cancelled as at December 31, 2021.

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 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. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Casper, Wyoming; Midland, Texas; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania, and administrative offices in Nicosia, Cyprus and Luxembourg City, Luxembourg. The Corporation also operates in the Middle East regions through an arrangement with National Energy Services Reunited Corp.

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

Results of Operations

Three and Nine-Month Periods Ended September 30, 2022

Revenue

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**142,418**	93,338	53	**377,987**	237,650	59

For the three-month period ended September 30, 2022, the Corporation generated consolidated revenue of $142.4 million as compared to $93.3 million in the 2021-quarter, an increase of 53 percent. As a result of stronger US and Canadian industry drilling activity and expanded capacity in the Corporation's high performance technology fleets, PHX Energy's activity levels grew relative to the 2021-quarter. The Corporation's consolidated operating days increased by 32 percent from 5,753 days in the 2021-quarter to 7,578 days in the 2022-quarter. The average consolidated revenue per day, excluding the motor rental division in the US, rose by 16 percent to $18,008 in the 2022-quarter relative to $15,567 in the corresponding 2021-quarter. The higher revenue per day was mainly driven by pricing increases implemented to help curtail inflationary costs and the strengthening of the US dollar relative to the 2021-quarter. For the three-month period ended September 30, 2022, US revenues represented 77 percent of consolidated revenue from continuing operations (2021 – 79 percent).

During the third quarter of 2022, the Western Texas Intermediate ("WTI") crude oil price was 28 percent higher than in the 2021-quarter averaging USD $91/bbl (2021-quarter – USD $71/bbl) and the Western Canadian Select ("WCS") oil prices also showed a 31 percent increase averaging CAD$94/bbl (2021-quarter – CAD $72/bbl). Robust commodity prices continued in the 2022 three-month period and this supported industry activity levels in both Canada and the US, which improved quarter-over-quarter. In the third quarter of 2022, an average of 733 rigs (2021-quarter – 475 rigs) operated per day in the US and an average of 199 rigs (2021-quarter – 151 rigs) operated per day in Canada. Throughout North America, the vast majority of wells continued to be horizontal and directional representing 96 percent of all wells drilled in Canada and 96 percent of the average number of rigs operating per day in the US (Sources: Peters & Co., Daily Oil Bulletin and Baker Hughes).

For the nine-month period ended September 30, 2022, the Corporation realized consolidated revenue of $378 million, a 59 percent increase, compared to the $237.7 million in the same 2021-period. The improvement in revenue for the 2022 nine-month period was primarily a result of strong activity levels, high performance technology offerings, pricing increases, and the strengthening of the US dollar in the 2022-period relative to 2021. For the 2022-period, the average consolidated revenue per day, excluding the motor rental division in the US, was $17,421 as compared to $14,970 in the 2021-period, an increase of 16

percent. In the nine-month period ended September 30, 2022, there were 20,859 operating days recorded which rose by 37 percent relative to 15,240 days in the corresponding 2021-period.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Direct costs	**111,734**	74,546	50	**304,200**	188,499	61
Depreciation & amortization drilling and other equipment (included in direct costs)	**8,143**	6,453	26	**23,243**	18,962	23
Depreciation & amortization right-of-use asset (included in direct costs)	**745**	838	(11)	**2,430**	2,500	(3)
Gross profit as a percentage of revenue excluding depreciation & amortization and government grants[1]	**28%**	28%		**26%**	27%	

Direct costs are comprised of field and shop expenses and include depreciation and amortization on the Corporation's equipment and right-of-use assets. For the three-month period ended September 30, 2022, direct costs increased by 50 percent to $111.7 million from $74.5 million in the 2021-quarter. A portion of the increase in direct costs was attributable to increased activity levels, and in addition, PHX Energy continued to face labour shortages and inflationary cost increases resulting in higher personnel expenses and rising costs related to equipment repairs and rentals.

The Corporation's depreciation and amortization on drilling and other equipment for the three-month period ended September 30, 2022, increased by 26 percent from $6.5 million to $8.1 million as capital expenditures progressively increased in the 2021-year and 2022-period.

In the three and nine-month periods of 2022, gross profit as a percent of revenue excluding depreciation and amortization and government grants were 28 percent and 26 percent, respectively, compared to 28 percent and 27 percent respectively in 2021. Included in the 2021 nine-month period's direct costs are $6.6 million of government grants. The slight decrease in year-to-date gross profitability in 2022 relative to the corresponding 2021-period is mainly due to the effect of inflationary cost increases. In addressing inflation, management continues to take a proactive approach by leveraging volume purchases, bulk discounts, and other strategies to soften the impact of rising material and service costs.

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(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Selling, general and administrative ("SG&A") costs	**15,589**	12,326	26	**49,536**	31,938	55
Cash-settled share-based compensation (included in SG&A costs)	**5,178**	3,380	53	**17,630**	9,948	77
Equity-settled share-based compensation (included in SG&A costs)	**133**	116	15	**393**	335	17
SG&A costs excluding share-based compensation as a percentage of revenue [1]	**7%**	9%		**8%**	9%	

For the three and nine-month periods ended September 30, 2022, the Corporation's SG&A costs were $15.6 million and $49.5 million respectively, as compared to $12.3 million and $31.9 million in the corresponding 2021-periods. Increased SG&A costs in both periods were primarily due to higher personnel-related costs incurred to support the increase in drilling activity and higher compensation expenses related to cash-settled share-based awards. The 2021 nine-month period's SG&A costs also included $1.9 million of government grants.

For the three and nine-month periods ended September 30, 2022, SG&A costs included share-based compensation expenses totaling $5.3 million (2021 - $3.5 million) and $18 million (2021 - $10.3 million), respectively. Excluding share-based compensation, SG&A costs as a percentage of revenue for the three and nine-month period ended September 30, 2022 decreased to 7 percent and 8 percent, respectively, from 9 percent in both corresponding 2021-periods.

Share-based compensation mainly relates to retention awards which are measured at fair value and the increase in both 2022-periods was primarily due to increases in the Corporation's share price.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Research & development expense	**909**	540	68	**2,539**	1,725	47

Research and development ("R&D") expenditures for the three and nine-month periods ended September 30, 2022 were $0.9 million (2021 - $0.5 million) and $2.5 million (2021 - $1.7 million), respectively. Throughout the 2022-year, as the Corporation's activity levels increased, the R&D department also worked on a greater number of initiatives focused on developing new

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technologies, improving the reliability of equipment, and reducing costs to operations. In the 2022-periods, higher personnel-related costs, equipment parts, and prototype expenses were necessary to support these initiatives.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Finance expense	**499**	114	338	**873**	380	130
Finance expense lease liability	**498**	527	(6)	**1,507**	1,609	(6)

Finance expense mainly relates to interest charges on the Corporation's long-term and short-term bank facilities. For the three and nine-month periods ended September 30, 2022, finance charges increased to $0.5 million (2021 - $0.1 million) and $0.9 million (2021 - $0.4 million), respectively, due to higher amounts drawn on the credit facilities as the Corporation secures equipment and materials to facilitate continued growth.

Finance expense lease liability relates to interest expenses incurred on lease liabilities. In both the three and nine-month periods, it decreased by 6 percent as the Corporation's long-term leases have been expiring and renewed with more favorable terms.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Net (gain) loss on disposition of drilling equipment	**(4,157)**	39	**(10,799)**	(4,263)
Foreign exchange (gains) losses	**205**	(77)	**281**	(16)
Recovery of bad debts	**(2)**	(14)	**(2)**	(279)
Other	**-**	-	**(512)**	-
Other income	**(3,954)**	(52)	**(11,032)**	(4,558)

For the three and nine-month periods ended September 30, 2022, the Corporation recognized other income of $4 million and $11 million, respectively (2021 - $52 thousand and $4.6 million, respectively). In both periods, the improvement was mainly driven by increases in the net gain on disposition of drilling equipment.

Net gain on disposition of drilling equipment is comprised of gains on disposition of drilling equipment and proceeds from insurance programs. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. In both 2022-periods, as drilling activity grew, more instances of downhole equipment losses occurred as compared to the corresponding 2021-periods, resulting in a higher net gain on disposition of drilling equipment.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Provision for income taxes	**3,667**	1,131	**6,384**	4,070
Effective tax rates	**21%**	21%	**21%**	23%

For the three and nine-month periods ended September 30, 2022, the Corporation reported income tax provisions of $3.7 million (2021 - $1.1 million) and $6.4 million (2021 - $4.1 million), respectively. Higher provisions in the 2022-periods were mainly a result of improved taxable profits in the US.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**30,996**	19,322	60	**77,839**	45,018	73
Reportable segment profit before tax[1]	**4,479**	2,258	98	**7,930**	4,807	65

[1] Includes adjustments to intercompany transactions.

For the three and nine-month periods ended September 30, 2022, PHX Energy's Canadian revenue was $31 million and $77.8 million, respectively, in comparison to revenue of $19.3 million and $45 million in the corresponding 2021-periods. The three-month period revenue is the highest level of quarterly revenue generated since the first quarter of 2015.

For the three and nine-month periods ended September 30, 2022, operating days improved 33 and 46 percent to 2,835 days and 7,252 days, respectively, compared to 2,128 days and 4,982 days in the comparable 2021-periods. In comparison industry horizontal and directional drilling activity, as measured by drilling days, increased 31 percent to 17,191 days in the third quarter of 2022 and 38 percent to 43,760 for the first nine-months of the 2022-year (Source: Daily Oil Bulletin).

Despite a higher volume of active rigs operating in 2022, the Canadian market remained highly competitive. However, the Canadian division was successful in maintaining its market share and well-diversified client base. During the 2022-quarter,

PHX Energy was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, and Scallion basins.

Like other companies in the oil and gas services sector, PHX Energy's Canadian operations were faced with supply chain challenges, inflationary cost increases, and labour shortages that resulted in rising costs related to personnel, equipment repairs, and rentals. To curtail some of these costs, despite the highly competitive market, pricing increases were negotiated with customers where possible. These efforts along with greater volumes of activity resulted in the Corporation's Canadian division nearly doubling its reportable segment profit before tax in the third quarter of 2022 to $4.5 million from $2.3 million in the 2021-quarter. For the 2022 nine-month period, the division's reportable segment profit before tax also improved, increasing 65 percent to $7.9 million from $4.8 million in the comparable 2021-period.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**110,228**	74,016	49	**297,390**	192,632	54
Reportable segment income before tax[1]	**17,056**	8,760	95	**40,387**	23,611	71

[1] Includes adjustments to intercompany transactions.

For the third consecutive quarter, PHX Energy's US division achieved the highest quarterly divisional revenue in the Corporation's history. In the 2022-quarter, US revenue improved by 49 percent to $110.2 million as compared to $74 million in the corresponding 2021-quarter. PHX Energy's US drilling activity increased by 28 percent in the 2022-quarter to 4,653 days compared to 3,626 days in the same 2021-quarter. US industry horizontal and directional rig count in the third quarter of 2022 increased by 54 percent quarter-over-quarter with an average of 733 active horizontal and directional rigs per day in 2022 compared to an average of 475 active horizontal and directional rigs per day in the 2021-quarter (Source: Baker Hughes).

During the 2022-quarter, PHX Energy's fleet utilization was negatively impacted by shortages of certain components which resulted in delays to equipment servicing that in turn limited the Corporation's activity growth. Despite the limitations on drilling activity, the Corporation's high-performance technologies and superior operational performance that is driven by personnel and equipment continued to be in high demand. As a result of this demand and targeted marketing efforts, PHX Energy's US division was able to increase pricing to its customers. For the three-month period ended September 30, 2022, revenue per day, excluding the Corporation's US motor rental division, rose by 16 percent to $22,408 compared to $19,388 in the corresponding 2021-quarter. The increase in revenue per day is also partly attributable to the strengthening of the US dollar. The US-denominated average revenue per day increased by 11 percent quarter-over-quarter from USD $15,391 to USD $17,158.

For the three-month period ended September 30, 2022, PHX Energy's US operations' reportable segment profit before tax almost doubled to $17.1 million from $8.8 million in the same 2021-period. The significant improvement in divisional profit is primarily attributable to improved activity levels and effective inflation-mitigating strategies deployed by management.

Horizontal and directional drilling continues to represent the majority of rigs running on a daily basis during the third quarter of 2022. For the three-month period ended September 30, 2022, the Corporation's US division was active in the Permian, SCOOP/STACK, Marcellus, Bakken, and Niobrara basins.

Throughout the nine-month period ended September 30, 2022, the Corporation continued to leverage its high-performance technologies and generated higher operational days and higher revenue per day. Drilling activity for the nine-month period ended September 30, 2022, increased 31 percent to 13,405 days as compared to 10,258 days in the same 2021-period. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, improved by 59 percent to 680 rigs in the first three quarters of 2022 as compared to an average of 427 rigs in the comparable 2021-period (Source: Baker Hughes). For the nine-month period ended September 30, 2022, average revenue per day, excluding the Corporation's motor rental division, was $21,095, which is 18 percent higher than the $17,867 reported in the 2021-period. For the nine-month period ended September 30, 2022, the US-denominated revenue per day increased to USD $16,424, which is 15 percent higher compared to USD $14,288 achieved in the comparable 2021-period.

For the nine-month period ended September 30, 2022, a reportable segment income before tax of $40.4 million was realized as compared to $23.6 million in the corresponding 2021-period. Higher profitability in the period is mainly attributed to the growth in activity levels and revenue per day.

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**1,194**	-	n.m.	**2,758**	-	n.m.
Reportable segment profit (loss) before tax	**420**	(302)	n.m.	**781**	(1,101)	n.m.

n.m. – not meaningful

The Corporation's International segment revenue is mainly comprised of revenue from Albania. For the three and nine-month periods ended September 30, 2022, International revenue increased to $1.2 million and $2.8 million, respectively, as compared to nil in the 2021-periods as Albania operations were paused at that time and resumed late in the first quarter of 2022 with one rig. With the resumption of activity in 2022, the International segment realized reportable segment profits of $0.4 million and $0.8 million for the three and nine-month periods (2021 – loss of $0.3 million and loss of $1.1 million, respectively.)

Discontinued Operations – Russia

On June 30, 2022, the Corporation disposed of the Russian division operating under the entity, Phoenix TSR. Accordingly, for the three and nine-month periods ended September 30, 2022, the Russian operations and loss on disposition have been presented as discontinued operations.

The results of the sold Phoenix TSR operations are as follows:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month period ended September 30,	
	2022	2021	**2022**	2021
Revenue	**-**	3,209	**7,443**	6,841
Expenses	**-**	(2,586)	**(5,781)**	(6,757)
	-	623	**1,662**	84
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	**-**	-	**(10,561)**	-
Loss on disposition of Phoenix TSR	**-**	-	**(3,496)**	-
Impairment and other write-offs	**-**	-	**(1,967)**	-
Loss from discontinued operations	**-**	623	**(14,362)**	84
Income tax from discontinued operations	**-**	-	**(196)**	-
Loss from discontinued operations, net of taxes	**-**	623	**(14,558)**	84

Summary of Quarterly Results – Continuing Operations

(Stated in thousands of dollars except per share amounts)

	Sep-22	Jun-22	Mar-22	Dec-21	Sept-21	Jun-21	Mar-21	Dec-20
Revenue	**142,418**	126,238	109,331	104,357	93,338	75,765	68,547	54,805
Earnings (loss)	**13,475**	12,818	(2,315)	9,403	4,206	4,447	5,334	2,028
Earnings (loss) per share – basic	**0.27**	0.25	(0.04)	0.19	0.09	0.08	0.11	0.04
Earnings (loss) per share – diluted	**0.27**	0.25	(0.04)	0.18	0.08	0.08	0.11	0.04
Dividends paid	**3,797**	3,791	2,482	2,505	1,260	1,260	1,266	-
Cash and cash equivalents	**27,024**	17,971	11,284	24,829	24,917	21,026	23,468	25,746
Loans and borrowings	**24,000**	20,108	3,749	-	-	-	-	-

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Funds from operations [1]	**22,711**	13,337	**47,413**	37,438

	Sep. 30, '22	Dec. 31, '21
Working capital [1]	**89,228**	57,872

In the third quarter and first nine-months of 2022, mainly as a result of greater activity and improved profitability in all of PHX Energy's operating segments, the Corporation's funds from operations increased to $22.7 million (2021 - $13.3 million) and $47.4 million (2021 - $37.4 million), respectively.

As at September 30, 2022, the Corporation had working capital of $89.2 million, which is $31.3 million higher than the $57.9 million reported at December 31, 2021. The increase in working capital at September 30, 2022 was primarily due to higher trade and other receivables resulting from the increased revenue and greater inventory levels that are being maintained to address supply chain challenges.

Cash Flow and Dividends

In December 2020, PHX Energy reinstated its quarterly dividend program. The Board will continually review the dividend program and take into consideration, without limitation, the Corporation's financial performance, forecasted activity levels and the industry outlook. The actual amount of future quarterly dividends, if any, remains subject to the approval of and declaration by the Board. The Board reviews the Corporation's dividend policy in conjunction with their review of quarterly financial and operating results. The Corporation's ability to maintain the current level of dividends to its shareholders is dependent upon the realization of cash flow from operations, among other considerations, and if the Corporation does not meet its budgeted cash flow from operations, dividends to shareholders may be reduced or suspended entirely.

In light of the continued strong performance and financial results, the Board has approved another increase to the Corporation's quarterly dividend to $0.15 per common share from $0.10 per common share, commencing with the dividend payable January 16, 2023 to shareholders of record at the close of business on December 30, 2022. This is the fourth dividend increase since its re-instatement in December 2020, and is a 500 percent increase from the dividend payable on December 31, 2020.

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

On September 15, 2022 PHX Energy declared a cash dividend of $0.10 per common share, increased from the previous $0.075, payable to shareholders of record at the close of business on September 30, 2022. An aggregate of $5.1 million was paid on October 17, 2022.

Investing Activities

PHX Energy used net cash in investing activities of $12.8 million in the third quarter of 2022 compared to $11.5 million in the 2021-quarter. In the third quarter of 2022, the Corporation received proceeds of $6.3 million (2021 - $0.6 million) from the disposition of drilling equipment, primarily related to the involuntary disposal of drilling equipment in well bores. Additionally, the Corporation spent $18.6 million on capital expenditures in the third quarter of 2022 (2021 - $6.8 million). These expenditures included:

- $8.6 million downhole performance drilling motors,
- $8.9 million in MWD systems and spare components and RSS; and
- $1.1 million in machinery and equipment and other assets.

The capital expenditure program undertaken in the period was primarily financed from cash flows from operations and its credit facilities when required. Of the total capital expenditures in the 2022-quarter, $10.2 million was used to grow the Corporation's fleet of drilling equipment and the remaining $8.4 million was used to maintain the current fleet of drilling and other equipment.

During the three-month period ended September 30, 2022, the Corporation acquired intangible assets in the amount of $0.1 million (2021 - $nil).

The change in non-cash working capital balances of $0.4 million (use of cash) for the three-month period ended September 30, 2022, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $2.4 million (use of cash) for the three-month period ended September 30, 2021.

Financing Activities

For the three-month period ended September 30, 2022, cash used in financing activities was $0.3 million as compared to $6.5 million used in financing activities in the same 2021-period. In the 2022-period:

- Dividends of $3.8 million were paid to shareholders;
- payments of $0.7 million were made towards lease liabilities;

- 157,433 common shares were issued from treasury for proceeds of $0.4 million upon the exercise of share options; and
- $3.9 million net in drawings were taken against the syndicated facility.

Capital Resources

As of September 30, 2022, the Corporation had CAD $24 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $27 million. As at September 30, 2022, the Corporation had approximately CAD $41 million and USD $15 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at September 30, 2022, the Corporation was in compliance with all its financial covenants.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. On April 14, 2022, the Corporation announced an increase to its 2022 capital expenditure program from $47.7 million to $85 million. The increase is primarily dedicated to growing the Velocity, RSS and Atlas fleets to meet increased demand anticipated in late 2022 and 2023.

In order to continue the advantageous strategy of placing advanced orders in a robust industry environment and continue to mitigate the supply chain issues expected to continue into 2023, the Board has approved a preliminary 2023 capital expenditure program of $50 million. Of the 2023 capital expenditures, $25 million is anticipated to be spent on growing PHX Energy's fleet of drilling and other equipment and $25 million on maintenance of the fleet of drilling and other equipment.

These planned expenditures are expected to be financed from cash flow from operations, cash and cash equivalents, and / or the Corporation's unused credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists, 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 September 30, 2022, the Corporation has commitments to purchase drilling and other equipment for $46.7 million. Majority of the delivery is expected to occur within the last quarter of 2022 with the remainder expected to be delivered in the first quarter of 2023. The Corporation expects to see the benefit of these technologies by the end of the first quarter of 2023.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at September 30, 2022 and 2021.

Proposed Transactions

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

Critical Accounting Estimates and Judgments

The consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Corporation's significant accounting policies are described in its annual audited consolidated financial statements for the year ended December 31, 2021.

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

In preparing the condensed consolidated interim financial statements, the significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2021.

Changes in Accounting Policies

The condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2021, unless specified.

Business Risk Factors

The business risk factors applicable to the Corporation have not materially changed since December 31, 2021. Refer to the "Business Risk Factors" section of the MD&A in PHX Energy's 2021 Annual Report as well as in the Corporation's most recent Annual Information Form filed on SEDAR at www.sedar.com.

Corporate Governance

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

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

The Corporation's Certifying Officers have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Corporation. ICFR includes those policies and procedures that (i) pertain to the maintenance of

records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the annual financial statements or interim financial reports.

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

There were no changes in the Corporation's ICFR that occurred during the period beginning on July 1, 2022 and ended on September 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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

Outstanding Corporation Share Data

(In thousands of shares)	**As at November 7, 2022**
Common shares outstanding, excluding shares held in trust	50,738,265
Common shares held in trust [1]	68,972
Total common shares outstanding	50,807,237
Dilutive securities:	
Options	1,233,334
Corporation shares – diluted	52,040,571

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

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense, finance expense lease liability, income taxes, depreciation and amortization, impairment losses on drilling and other equipment and goodwill 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 net earnings that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed and how it was taxed in various countries. Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Net earnings from continuing operations:	**13,475**	4,206	**23,978**	13,987
Add:				
Depreciation and amortization drilling and other equipment	**8,143**	6,453	**23,243**	18,962
Depreciation and amortization right-of-use asset	**745**	838	**2,430**	2,500
Provision for income taxes	**3,667**	1,131	**6,384**	4,070
Finance expense	**499**	114	**873**	380
Finance expense lease liability	**498**	527	**1,507**	1,609
Equity-settled share-based payments	**133**	116	**393**	335
Unrealized foreign exchange (gain) loss	**155**	(112)	**37**	77
Severance	**-**	835	**-**	835
Adjusted EBITDA	**27,315**	14,108	**58,845**	42,755

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.

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 Consolidated Statements of Comprehensive Income (Loss).

Funds from Operations

Funds from operations is defined as cash flows generated from operating activities before changes in non-cash working capital, interest paid, and income taxes paid. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses funds from operations as an indication of the Corporation's ability to generate funds from its operations before considering changes in working capital balances and interest and taxes paid.

Investors should be cautioned, however, that this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. PHX Energy's method of calculating funds from operations may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Cash flows from operating activities	**21,627**	22,301	**29,367**	32,580
Add (deduct):				
Changes in non-cash working capital	**679**	(8,785)	**17,683**	4,910
Interest paid	**414**	48	**592**	155
Income taxes received	**(9)**	(227)	**(229)**	(207)
Funds from operations	**22,711**	13,337	**47,413**	37,438

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.

Free Cash Flow

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Cash flows from operating activities	**21,627**	22,301	**29,367**	32,580
Add (deduct):				
Changes in non-cash working capital	**679**	(8,785)	**17,683**	4,910
Interest paid	**414**	48	**592**	155
Income taxes received	**(9)**	(227)	**(229)**	(207)
Maintenance capital expenditures	**(8,440)**	(3,320)	**(18,846)**	(8,263)
Proceeds on disposition	**6,274**	579	**15,454**	7,104
Cash payment on leases	**(1,233)**	(1,359)	**(3,973)**	(4,048)
Free cash flow	**19,312**	9,237	**40,048**	32,231

Working Capital

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

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

(Stated in thousands of dollars)

		As at:
	September 30, 2022	December 31, 2021
Current assets	**200,950**	141,159
Deduct:		
Current liabilities	**(111,722)**	(83,287)
Working capital	**89,228**	57,872

Net Debt (Net Cash)

Net debt (Net cash) is defined as the Corporation's operating facility and loans and borrowings less cash and cash equivalents. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses 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 operating facility, loans and borrowings, and cash and cash equivalents to net debt (net cash):

(Stated in thousands of dollars)

		As at:
	September 30, 2022	December 31, 2021
Loans and borrowings	**24,000**	-
Deduct:		
Cash and cash equivalents	**(27,024)**	(24,829)
Net debt (Net cash)	**(3,024)**	(24,829)

Gross Profit as a Percentage of Revenue Excluding Depreciation & Amortization and Government Grants

Gross profit as a percentage of revenue excluding depreciation & amortization and government grants is defined as the Corporation's gross profit excluding depreciation and amortization and government grants divided by revenue and is used to assess operational profitability. This non-GAAP measure 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, government grants and gross profit to gross profit as a percentage of revenue excluding depreciation and amortization and government grants:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Revenue	**142,418**	93,338	**377,987**	237,650
Direct costs	**111,734**	74,546	**304,200**	188,499
Gross profit	**30,684**	18,792	**73,787**	49,151
Depreciation & amortization drilling and other equipment (included in direct costs)	**8,143**	6,453	**23,243**	18,962
Depreciation & amortization right-of-use asset (included in direct costs)	**745**	838	**2,430**	2,500
Government grants (included in direct costs)	**(75)**	-	**(75)**	(6,637)
	39,497	26,083	**99,385**	63,976
Gross profit as a percentage of revenue excluding depreciation & amortization and government grants	**28%**	28%	**26%**	27%

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 measure 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,	
	2022	2021	**2022**	2021
SG&A Costs	**15,589**	12,326	**49,536**	31,938
Deduct:				
Share-based compensation (included in SG&A)	**5,311**	3,496	**18,023**	10,283
	10,278	8,830	**31,513**	21,655
Revenue	**142,418**	93,338	**377,987**	237,650
SG&A costs excluding share-based compensation as a percentage of revenue	**7%**	9%	**8%**	9%

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 as quantified in the respective periods divided by revenue.

Definitions

When the Corporation refers to 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. Average operating revenue per day is calculated by dividing revenue by the number of operating days. Average consolidated revenue per day is calculated by dividing consolidated revenue by the consolidated number of operating days.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

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

- The projected capital expenditures budget for 2022 ($85 million) and 2023 ($50 million), and how these budgets will be allocated and funded and the competitive advantage that will be created by advanced orders in a challenging supply chain environment;
- The anticipated increased demand for the Corporation's services and high-performance technologies in North America;
- The anticipated impact of global supply chain disruptions and inflation on the Corporation's operations results in remainder of 2022 and 2023, and the Corporation's planned responses thereto, including effective mitigation of these challenges through various strategies and that fleet constraints will be alleviated as new equipment comes on line;
- Anticipated continuation of the Corporation's quarterly dividend program and the amounts of dividends;
- the Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through the ROCS Program;
- The expected delivery of equipment on order as at September 30, 2022 and from the 2023 capital expenditures and when the Corporation is anticipated to benefit from these deliveries;
- The potential for further impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto;
- Planned expenditures are expected to be financed primarily by funds from operations. However, if a sustained period of market and commodity price uncertainty and financial market volatility persists in 2022, the Corporation's activity

levels, cash flows and access to credit may be negatively impacted, in which event the proceeds from borrowing may be required to fund operations, and the expenditure level would be reduced accordingly; and

- The potential future settlement of restricted and performance awards in common shares that were purchased by an independent trustee in the open market for such purposes and the expectation that the majority of future settlements will be settled in common shares.

The above are stated under the headings: "Third Quarter Highlights", "Financial Results", "Liquidity", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "COVID-19, Supply Chain Disruption and Inflation", "Critical Accounting Estimates and Judgements", "Business Risk Factors" and "Outlook" sections of this MD&A may contain forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this MD&A and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the continuing impact of COVID-19 and the Russian-Ukrainian war 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 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.sedar.com) or at the Corporation's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Condensed Consolidated Statements of Financial Position

(unaudited)

	September 30, 2022	December 31, 2021 *(Adjusted - Note 8f and 10)*
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 27,023,659**	$ 24,828,830
Trade and other receivables	**112,630,127**	76,478,093
Inventories	**58,336,924**	36,691,141
Prepaid expenses	**2,599,453**	2,814,272
Current tax assets	**359,728**	346,554
Total current assets	**200,949,891**	141,158,890
Non-current assets:		
Drilling and other long-term assets (Note 6)	**107,152,534**	76,363,001
Right-of-use assets	**25,038,106**	25,708,177
Intangible assets	**15,662,594**	16,137,024
Investments	**3,000,500**	3,000,500
Deferred tax assets	**297,853**	126,133
Other long-term assets	**1,051,628**	-
Total non-current assets	**152,203,215**	121,334,835
Total assets	**$ 353,153,106**	$ 262,493,725
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	**$ 103,369,941**	$ 77,571,887
Lease liability	**2,619,881**	3,232,503
Dividends payable (Note 8d)	**5,078,134**	2,482,060
Current tax liabilities	**653,891**	-
Total current liabilities	**111,721,847**	83,286,450
Non-current liabilities:		
Lease liability	**32,777,446**	32,638,819
Loans and borrowings (Note 7)	**24,000,000**	-
Deferred tax liability	**16,643,504**	9,346,426
Other (Note 8f)	**2,993,251**	2,789,786
Total non-current liabilities	**76,414,201**	44,775,031
Equity:		
Share capital (Note 8a)	**250,370,939**	235,463,414
Contributed surplus	**7,110,486**	9,462,091
Deficit	**(124,817,481)**	(121,721,790)
Accumulated other comprehensive income	**32,353,114**	11,228,529
Total equity	**165,017,058**	134,432,244
Total liabilities and equity	**$ 353,153,106**	$ 262,493,725

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Revenue	**$ 142,418,326**	$ 93,338,300	**$ 377,986,582**	$ 237,650,245
Direct costs	**111,734,015**	74,546,385	**304,200,177**	188,499,149
Gross profit	**30,684,311**	18,791,915	**73,786,405**	49,151,096
Expenses:				
Selling, general and administrative expenses	**15,589,015**	12,326,017	**49,536,435**	31,937,842
Research and development expenses	**909,169**	540,466	**2,538,935**	1,725,014
Finance expense	**499,461**	114,309	**873,445**	379,541
Finance expense lease liability	**498,239**	526,721	**1,506,640**	1,609,403
Other income (Note 9)	**(3,953,620)**	(52,249)	**(11,031,501)**	(4,557,847)
	13,542,264	13,455,264	**43,423,954**	31,093,953
Earnings from continuing operations before income taxes	**17,142,047**	5,336,651	**30,362,451**	18,057,143
Provision for (recovery of) income taxes				
Current	**625,922**	(239,049)	**396,650**	(218,596)
Deferred	**3,041,401**	1,369,882	**5,987,492**	4,288,530
	3,667,323	1,130,833	**6,384,142**	4,069,934
Earnings from continuing operations	**13,474,724**	4,205,818	**23,978,309**	13,987,209
Discontinued operations				
Net loss from discontinued operations, net of taxes (Note 4)	**-**	622,969	**(14,558,032)**	85,476
Net earnings	**13,474,724**	4,828,787	**9,420,277**	14,072,685
Other comprehensive income				
Foreign currency translation	**8,739,048**	2,659,311	**10,563,631**	490,323
Reclassification of foreign currency translation loss on disposition (Note 4)	**-**	-	**10,560,954**	-
Total comprehensive income for the period	**$ 22,213,772**	$ 7,488,098	**$ 30,544,862**	$ 14,563,008
Earnings per share – basic				
Continuing operations	**$ 0.27**	$ 0.09	**$ 0.48**	$ 0.28
Discontinued operations	**$ -**	$ 0.01	**$ (0.29)**	$ -
Net earnings	**$ 0.27**	$ 0.10	**$ 0.19**	$ 0.28
Earnings per share – diluted				
Continuing operations	**$ 0.27**	$ 0.08	**$ 0.48**	$ 0.27
Discontinued operations	**$ -**	$ 0.01	**$ (0.29)**	$ -
Net earnings	**$ 0.27**	$ 0.09	**$ 0.19**	$ 0.27

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

Nine-month period ended	Share Capital					
September 30, 2022	**Number**	**Amount ($)**	**Contributed Surplus**	**Accumulated Other Comprehensive Income**	**Deficit**	**Total Equity**
Balance, December 31, 2021	**47,978,662**	**$ 235,463,414**	**$ 9,462,091**	**$ 11,228,529**	**$ (121,721,790)**	**$ 134,432,244**
Issuance of share capital on exercise of options	**1,140,138**	**2,170,885**	**-**	**-**	**-**	**2,170,885**
Issuance of share capital from trust on settlement of retention awards	**2,144,795**	**13,491,993**	**-**	**-**	**-**	**13,491,993**
Common shares purchased and held in trust	**(555,300)**	**(3,500,000)**	**-**	**-**	**-**	**(3,500,000)**
Share-based payments	**-**	**-**	**393,042**	**-**	**-**	**393,042**
Fair value of options exercised	**-**	**2,744,647**	**(2,744,647)**	**-**	**-**	**-**
Net earnings	**-**	**-**	**-**	**-**	**9,420,277**	**9,420,277**
Foreign currency translation, net of tax	**-**	**-**	**-**	**10,563,631**	**-**	**10,563,631**
Reclassification of foreign currency translation loss on disposition (Note 4)	**-**	**-**	**-**	**10,560,954**	**-**	**10,560,954**
Dividends	**-**	**-**	**-**	**-**	**(12,515,968)**	**(12,515,968)**
Balance, September 30, 2022	**50,708,295**	**$ 250,370,939**	**$ 7,110,486**	**$ 32,353,114**	**$ (124,817,481)**	**$ 165,017,058**

Nine-month period ended	Share Capital					
September 30, 2021	Number	Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2020	50,625,920	$ 247,543,263	$ 10,131,786	$ 11,296,987	$ (136,939,398)	$ 132,032,638
Issuance of share capital on exercise of options	443,967	974,327	-	-	-	974,327
Common shares repurchased and cancelled	(960,888)	(3,464,134)	-	-	-	(3,464,134)
Common shares purchased and held in trust	(1,376,280)	(6,086,000)	-	-	-	(6,086,000)
Share-based payments	-	-	334,548	-	-	334,548
Fair value of options exercised	-	478,605	(478,605)	-	-	-
Net earnings	-	-	-	-	14,072,685	14,072,685
Foreign currency translation, net of tax	-	-	-	490,323	-	490,323
Dividends	-	-	-	-	(5,024,965)	(5,024,965)
Balance, September 30, 2021	48,732,719	$ 239,446,061	9,987,729	11,787,310	(127,891,678)	133,329,422

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Cash flows from operating activities:				
Earnings from continuing operations	**$ 13,474,724**	$ 4,205,818	**$ 23,978,309**	$ 13,987,209
Adjustments for:				
Depreciation and amortization	**8,143,257**	6,452,951	**23,242,730**	18,962,111
Depreciation and amortization right-of-use asset	**744,876**	838,164	**2,429,603**	2,499,517
Provision for income taxes	**3,667,323**	1,130,833	**6,384,142**	4,069,934
Unrealized foreign exchange loss (gain)	**155,128**	(112,152)	**36,602**	76,664
Net (gain) loss on disposition of drilling equipment	**(4,157,247)**	39,049	**(10,798,870)**	(4,263,147)
Equity-settled share-based payments	**133,034**	116,230	**393,042**	334,548
Finance expense	**499,461**	114,309	**873,445**	379,541
Recovery of bad debts	**(1,501)**	(14,442)	**(1,501)**	(279,065)
Provision for inventory obsolescence	**51,868**	565,770	**876,524**	1,671,651
Interest paid	**(413,530)**	(48,308)	**(591,701)**	(155,144)
Income taxes received	**9,461**	227,073	**228,591**	206,757
Change in non-cash working capital	**(679,450)**	8,785,575	**(17,683,437)**	(4,910,344)
Continuing operations	**21,627,404**	22,300,870	**29,367,479**	32,580,232
Discontinued operations (Note 4)		(336,193)	**(1,254,859)**	(926,342)
Net cash from operating activities	**21,627,404**	21,964,677	**28,112,620**	31,653,890
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**6,274,079**	578,521	**15,453,628**	7,104,335
Acquisition of drilling and other equipment	**(18,631,230)**	(6,751,036)	**(52,051,148)**	(24,159,193)
Acquisition of intangible assets	**(74,189)**	-	**(692,394)**	-
Acquisition of private equity investments	**-**	(3,000,500)	**-**	(3,000,500)
Change in non-cash working capital	**(370,923)**	(2,354,966)	**339,967**	2,360,763
Continuing operations	**(12,802,263)**	(11,527,981)	**(36,949,947)**	(17,694,595)
Discontinued operations (Note 4)	**-**	(2,728)	**(68,068)**	11,127
Net cash used in investing activities	**(12,802,263)**	(11,530,709)	**(37,018,015)**	(17,683,468)
Cash flows from financing activities:				
Proceeds from loans and borrowings	**3,892,008**	-	**24,000,000**	-
Proceeds from issuance of share capital	**359,032**	579,056	**2,170,885**	974,327
Dividends paid to shareholders	**(3,796,793)**	(1,259,757)	**(10,069,396)**	(3,785,162)
Purchase of shares held in trust	**-**	(2,769,829)	**(3,500,000)**	(6,086,000)
Payments of Lease Liability	**(734,273)**	(832,303)	**(2,466,184)**	(2,438,183)
Repurchase of shares under the NCIB	**-**	(2,260,001)	**-**	(3,464,134)
Continuing operations	**(280,026)**	(6,542,834)	**10,135,305**	(14,799,152)
Discontinued operations	**-**	-	**-**	-
Net cash from (used in) financing activities	**(280,026)**	(6,542,834)	**10,135,305**	(14,799,152)
Net increase (decrease) in cash and cash equivalents	**8,545,115**	3,891,134	**1,229,910**	(828,730)
Cash and cash equivalents, beginning of period	**17,971,334**	21,026,047	**24,828,830**	25,745,911
Effect of movements in exchange rates on cash held	**507,210**	-	**964,919**	-
Cash and cash equivalents, end of period	**$ 27,023,659**	$ 24,917,181	**$ 27,023,659**	$ 24,917,181

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2022 and 2021

In Canadian dollars (unaudited)

1. Reporting Entity

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

The Corporation, through its subsidiaries, provides horizontal and directional drilling services to oil and natural gas exploration and development companies in Canada, United States, Albania, and the Middle East regions. The Middle East region operates through an arrangement with National Energy Services Reunited Corp. The Corporation also develops and manufactures technologies that are made available for internal operational use.

The condensed consolidated interim financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation has presented its operations in Russia as a discontinued operation (see Note 4).

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended December 31, 2021.

These condensed consolidated interim financial statements were authorized by the Board of Directors on November 7, 2022.

b) Basis of Measurement

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

are measured at fair value. Liabilities for cash-settled share-based payment arrangements are included in trade and other payables and other non-current liabilities in the statement of financial position.

c) Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in Canadian dollars ("CAD"), which is the Corporation's functional currency.

d) Use of Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with International Financial Reporting Standards ("IFRS") requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2021.

3. Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2021, unless specified.

4. Discontinued Operations

a) Impairment and Other Write-Offs of Russian Assets

In the first quarter of 2022, the Corporation determined the Russian operations to be in its own cash-generating unit ("CGU") due to a divergence in its overall risk profile from the rest of the International CGU. Concurrently, PHX Energy recognized:

- Impairment loss of approximately $0.4 million on drilling and other equipment owned by the Russian operations, Phoenix TSR LLC ("Phoenix TSR");
- Write-offs of $0.6 million related to inventories owned by the Russian operations; and,
- Expected credit losses of $1 million related to certain trade receivables owned by Phoenix TSR.

b) Discontinued Operations and Loss on Disposition

On June 30, 2022, the Corporation completed the sale of its Russian division. The transaction involved the sale of all shares of Phoenix TSR, a legally wholly-owned subsidiary of PHX Energy that held the entire Russian drilling operations. The operations were previously classified under the Russia operating segment for reporting purposes.

	June 30, 2022
Consideration on sale of Phoenix TSR, satisfied in cash	**$ 404**
Less net assets of Phoenix TSR comprised of working capital:	**(3,496,576)**
Loss on disposition of Phoenix TSR	**$ (3,496,172)**

The results of the divested Phoenix TSR operations are as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Revenue	**$ -**	$ 3,209,476	**$ 7,443,368**	$ 6,841,387
Expenses	**-**	(2,586,507)	**(5,781,276)**	(6,756,990)
	-	622,969	**1,662,092**	84,397
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	**-**	-	**(10,560,954)**	-
Loss on disposition of Phoenix TSR	**-**	-	**(3,496,172)**	-
Impairment and other write-offs	**-**	-	**(1,966,848)**	-
Loss from discontinued operations	**-**	622,969	**(14,361,882)**	84,397
Income tax (recovery) from discontinued operations	**-**	-	**196,150**	(1,079)
Loss from discontinued operations, net of taxes	**$ -**	$ 622,969	**$ (14,558,032)**	$ 85,476

Reconciliation of net loss from discontinued operations, net of taxes to cash used in discontinued operations is as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Net loss from discontinued operations, net of taxes	**$ -**	$ 622,969	**$ (14,558,032)**	$ 85,476
Addback (deduct):				
Depreciation and amortization	**-**	-	**136,024**	-
Provision for income taxes	**-**	-	**196,150**	(1,079)
Unrealized foreign exchange (gain) loss		3,638	**(56,497)**	11,214
Interest and taxes received (paid), net		(3,006)	**(3,316)**	772
Loss (gain) on disposition of drilling equipment	**-**	9,675	**68,068**	3,953
Finance expense	**-**	3,071	**3,316**	(844)
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	**-**	-	**10,560,954**	-
Impairment and other write-offs	**-**	-	**1,966,848**	-
Loss on disposition of Phoenix TSR	**-**	-	**3,496,172**	-
Change in non-cash working capital	**-**	(972,540)	**(3,064,546)**	(1,025,834)
Cash used in operating activities	**$ -**	$ (336,193)	**$ (1,254,859)**	$ (926,342)

Cash from (used in) investing activities of discontinued operations are due to proceeds from disposition and a reversal of previously accrued proceeds.

5. Operating Segments

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

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Three-month periods ended September 30,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Total Revenue	**30,996**	19,322	**110,228**	74,016	**1,194**	-	**142,418**	93,338
Reportable segment profit (loss) before income taxes	**4,479**	2,258	**17,056**	8,760	**420**	(302)	**21,955**	10,716

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Nine-month periods ended September 30,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Total Revenue	**77,839**	45,018	**297,390**	192,632	**2,758**	-	**377,987**	237,650
Reportable segment profit (loss) before income taxes	**7,930**	4,807	**40,387**	23,611	**781**	(1,101)	**49,098**	27,317

(Stated in thousands of dollars)

	Canada		United States[1]		International		Total	
As at September 30,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Drilling and other equipment	**24,215**	13,686	**82,441**	58,769	**497**	318	**107,153**	72,773

[1] September 30, 2022 includes USD $1.7 million of drilling and other equipment physically located in the Middle East region (2021 – USD $1.5 million).

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Reportable segment income before income taxes	**21,955**	10,716	**49,098**	27,317
Corporate:				
Selling, general and administrative expenses	**6,861**	4,250	**24,849**	10,104
Research and development expenses	**909**	540	**2,539**	1,725
Finance expense	**499**	114	**873**	380
Finance expense lease liability	**498**	527	**1,507**	1,609
Other income	**(3,954)**	(52)	**(11,032)**	(4,558)
Earnings from continuing operations before income taxes	**17,142**	5,337	**30,362**	18,057

6. Drilling and Other Equipment

a) Acquisitions and Disposals

During the nine-month period ended September 30, 2022, the Corporation acquired assets with a cost of $52.1 million (2021 - $24.2 million).

Assets with a carrying amount of $4.7 million (2021 - $2.8 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $10.8 million (2021 - $4.3 million), which is included in other income (see note 9) in the condensed consolidated statement of comprehensive income.

b) Capital Commitments

As at September 30, 2022, the Corporation has commitments to purchase drilling and other equipment for $46.7 million with delivery expected to occur throughout the rest of the 2022 year and into early 2023.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at September 30, 2022**	Currency	Carrying Amount at December 31, 2021
Operating Facility	CAD	15,000	December 12, 2025	CAD	**-**	CAD	-
Syndicated Facility	CAD	50,000	December 12, 2025	CAD	**24,000**	CAD	-
US Operating Facility	USD	15,000	December 12, 2025	USD	**-**	USD	-

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at September 30, 2022 the Corporation was in compliance with all of its financial covenants as follows:

Ratio	Covenant	**September 30, 2022**
Debt to covenant EBITDA	< 3.0x	**0.35**
Interest coverage ratio	> 3.0x	**69.52**

The facilities bear interest based primarily on the Corporation's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined in the credit agreement. Interest on the operating facility is at the bank's prime rate plus 0.5 percent. Interest on the syndicated facility is at the Secured Overnight Financing Rate ("SOFR") plus 1.5 percent.

On August 24, 2022, the Corporation extended the maturity date of the syndicated loan agreement to December 12, 2025. As at September 30, 2022 the Corporation has approximately CAD $41 million and USD $15 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

8. Share Capital

a) Authorized and Issued Shares

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

	Number		Amount
Balance as at January 1, 2021	50,625,920	$	247,543,263
Common shares repurchased and cancelled	(1,960,788)		(7,979,601)
Common shares repurchased and held in trust	(1,662,537)		(7,500,000)
Issued shares pursuant to share option plan	976,067		3,399,752
Balance as at December 31, 2021	47,978,662	$	235,463,414
Common shares repurchased and held in trust	**(555,300)**		**(3,500,000)**
Issued shares pursuant to retention awards plan	**2,144,795**		**13,491,993**
Issued shares pursuant to share option plan	**1,140,138**		**4,915,532**
Balance as at September 30, 2022	**50,708,295**	**$**	**250,370,939**

b) Share Option Program (Equity-Settled)

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

Summary of option grants in 2022

Number		Exercise Price	Expiration Date		Fair Value
150,000	$	6.08	March 4, 2027	$	1.91
100,000		6.16	March 4, 2027		1.89
250,000					

The Corporation values all of its share options using the Black-Scholes model. The Corporation's determination of fair value of options on the date of grant is affected by the Corporation's share price as well as assumptions regarding a number of variables. For the options granted during 2022 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 54 percent, forfeiture rate of nil, dividend yield of 4.89 percent and a risk-free interest rate of 1.4 percent. The amounts computed according to the Black-Scholes model method may not be indicative of the actual values realized upon the exercise of these options by the holders.

During the nine-month period ended September 30, 2022, a total of 1,047,800 options granted in 2017 were net equity-settled through the issuance of 342,972 common shares. Total compensation expense related to stock options recognized for the three and nine-month periods ended September 30, 2022 were $0.1 million and $0.4 million, respectively (2021 - $0.1 million and $0.3 million, respectively).

A summary of the status of the plan as at September 30, is presented below:

	September 30, 2022		December 31, 2021	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**2,854,200**	**$ 3.15**	3,345,267	$ 3.01
Granted	**250,000**	**6.11**	500,000	2.70
Exercised	**(1,844,966)**	**3.49**	(976,067)	2.40
Forfeited / cancelled	**-**	**-**	(15,000)	4.15
Outstanding, end of period	**1,259,234**	**3.25**	2,854,200	3.15
Options exercisable, end of period	**925,894**	**2.83**	2,437,530	3.25

The range of exercise prices for options outstanding at September 30, 2022 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	0.44 yrs	1.95	50,000	1.95
75,900	0.44 yrs	2.00	75,900	2.00
50,000	2.43 yrs	2.09	50,000	2.09
150,000	2.43 yrs	2.19	150,000	2.19
133,334	3.43 yrs	2.64	66,666	2.64
300,000	3.43 yrs	2.74	199,998	2.74
200,000	1.44 yrs	2.81	200,000	2.81
50,000	1.44 yrs	2.83	50,000	2.83
150,000	4.43 yrs	6.08	49,998	6.08
100,000	4.43 yrs	6.16	33,332	6.16
1,259,234	2.77 yrs	$ 3.25	925,894	$ 2.83

c) Retention Award Plan

The retention award plan has two types of awards: Restricted Awards ("RAs") and Performance Awards ("PAs") and results in eligible participants receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired in the open market are held in trust for the potential settlement of RA and PA award values and are netted out of share capital, including the cumulative purchase cost,

until they are distributed for future settlements. For the nine-month period ended September 30, 2022, the trustee purchased 555,300 common shares (2021 – 1,376,280) for a total cost of $3.5 million (2021 - $6.1 million) and released 2,144,795 common shares (2021 – nil) to settle retention award obligations of $13.5 million (2021 - $nil). As at September 30, 2022, the Corporation held 73,044 common shares in trust (2021 – 1,376,280). The Corporation continues to account for its retention award plan as cash-settled share-based compensation.

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

PAs vesting and subsequent exercise is similar to RAs, except a payout multiplier is applied to the final payout. The payout multiplier is linked solely to total shareholder return on the Corporation's common shares relative to returns on securities of members of the Corporation's peer comparison group over the applicable vesting period and can range from a payout of zero percent to 200 percent. For the nine-month period ended September 30, 2022, 750,000 PAs were granted (2021 – 750,000), 774,152 PAs settled at a weighted average payout multiplier of 200 percent (2021 – 757,184), no PAs were forfeited (2021 - nil), and as at September 30, 2022, 1,565,276 PAs were outstanding (2021 – 1,529,226).

The Corporation recorded a total of $17.6 million compensation expense relating to these plans for the nine-month period ended September 30, 2022 (2021 – $9.9 million). The expense is included in selling, general and administrative expense and has a corresponding liability in trade and other payables for the current portion and other liabilities for the long-term portion. There were 3,293,538 RAs and PAs outstanding as at September 30, 2022 (2021 - 3,235,724).

A summary of the status of the plan as at September 30, 2022 is presented below:

	September 30, 2022	December 31, 2021
RAs and PAs outstanding, beginning of period	**3,267,579**	3,487,297
Granted	**1,610,996**	1,666,514
Settled	**(1,585,037)**	(1,808,415)
Forfeited / cancelled	**-**	(77,817)
RAs and PAs outstanding, end of period	**3,293,538**	3,267,579

d) Dividends

On September 15, 2022, the Corporation declared a dividend of $0.10 per share or $5.1 million payable on October 17, 2022.

e) Normal Course Issuer Bid

During the third quarter of 2022, 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 3,622,967 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 3, 2022. The NCIB commenced on August 16, 2022 and will terminate on August 15, 2023. 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.

For the nine-month period ended September 30, 2022, the Corporation did not repurchase shares through its previous and current NCIB.

The Corporation's previous NCIB commenced on August 16, 2021 and terminated on August 15, 2022. Pursuant to the previous NCIB, 1,499,900 common shares were purchased by the Corporation and cancelled as at December 31, 2021.

f) Prior Period Adjustment

The Corporation identified that the classification of the cash-settled liability awards between current and long-term liabilities was not correct as at December 31, 2021. As a result, the Corporation adjusted the December 31, 2021 statement of financial position to reclassify $2.8 million of liabilities from current (trade and other payables) to long-term (other non-current liabilities).

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	**2022**	2021
Net gain on disposition of drilling equipment	**(4,157)**	39	**(10,799)**	(4,263)
Foreign exchange (gains) losses	**205**	(77)	**281**	(16)
Recovery of bad debts	**(2)**	(14)	**(2)**	(279)
Other	**-**	-	**(512)**	-
Other income	**(3,954)**	(52)	**(11,032)**	(4,558)

10. Fair Values of Financial Instruments

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

Equity investments in a company are designated as non-derivative financial assets measured at Fair Value Through Other Comprehensive Income ("FVOCI") as the investment is not held-for-trading and fair value changes are not reflective of the Corporation's operations. The investment asset is carried at fair value on the Consolidated Statement of Financial Position. Fair value is considered level 3 under the fair value hierarchy and requires management to assess information available, which may include private placements, available financial statement information and other available market data.

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Karen David-Green

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta