Press Release
February 27, 2024
TSX – PHX
Calgary, Alberta

PHX Energy Announces All-Time Record Annual Financial Results

Fourth Quarter Highlights

- For the three-month period ended December 31, 2023, PHX Energy generated consolidated revenue of $165.3 million, the highest level of fourth quarter revenue on record and the third highest level of quarterly revenue in the Corporation's history. Revenue in the third and first quarter of 2023 are the first and second highest quarterly revenue on record, respectively. Consolidated revenue in the 2023-quarter included $10.3 million of motor rental revenue and $0.9 million of motor equipment and parts sold.

- Earnings from continuing operations increased by 63 percent to $33.1 million, $0.68 per share, in the 2023-quarter from $20.3 million, $0.39 per share, in the 2022 three-month period. The 2023-quarter's earnings are the highest level of quarterly earnings in the Corporation's history. Earnings from continuing operations in the 2023-quarter included $9.5 million of recovery of income taxes that primarily resulted from the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction.

- In the 2023 three-month period, adjusted EBITDA(1) from continuing operations was $35.4 million, 21 percent of consolidated revenue(1) and is 4 percent higher compared to $33.9 million, 21 percent of consolidated revenue, in the same 2022-period. Included in the 2023-quarter's adjusted EBITDA is $4.6 million in cash-settled share-based compensation expense (2022 - $6.9 million). Adjusted EBITDA excluding cash-settled share-based compensation expense(1) in the fourth quarter of 2023 was $40 million, 24 percent of consolidated revenue(1) (2022 - $40.8 million, 26 percent of consolidated revenue).

- PHX Energy's US division revenue in the fourth quarter of 2023 was $122.1 million, only 3 percent lower compared to the record $125.7 million generated in the fourth quarter of 2022. US division revenue in the 2023-quarter represented 74 percent of consolidated revenue.

- PHX Energy's Canadian division reported $42.4 million of quarterly revenue, 38 percent higher compared to $30.7 million in the 2022-quarter and is the highest level of fourth quarter revenue for the Canadian division since 2014.

- In the 2023-quarter, the Corporation generated excess cash flow(2) of $22.3 million, after deducting capital expenditures(3) of $15.5 million offset by proceeds on disposition of drilling and other equipment of $11 million. This level of excess cash flow is a 57 percent increase over the fourth quarter of 2022.

- In the fourth quarter of 2023, PHX Energy continued to deliver additional returns to its shareholders and purchased and canceled 1,322,100 common shares for $11.3 million through its current Normal Course Issuer Bid ("NCIB").

- For the three-month period ended December 31, 2023, PHX Energy paid $7.3 million ($0.15 per share) in dividends, which is 50 percent, or $0.05 per share, more than the quarterly dividends paid in the same 2022-quarter. On December 15, 2023, the Corporation declared a dividend of $0.20 per share or $9.5 million, paid on January 15, 2024 to shareholders of record on December 29, 2023.

Year End Highlights

- With PHX Energy achieving record revenue for three of the quarters in 2023, the Corporation's 2023 annual consolidated revenue of $656.3 million is the highest in the Corporation's history and an increase of 23 percent from 2022. Consolidated revenue in the 2023-year included $47 million of motor rental revenue (2022 - $33.3 million) and $11 million of motor equipment and parts sold (2022 – nil).
- Earnings from continuing operations, adjusted EBITDA(1) from continuing operations, and adjusted EBITDA as a percentage of consolidated revenue(1) are all the best annual results on record. Earnings from continuing operations more than doubled to $98.6 million, $1.96 per share, in the 2023 twelve-month period from $44.3 million, $0.87 per share, in 2022. Adjusted EBITDA from continuing operations increased by 63 percent year-over-year to $150.7 million, $2.86 per share, which represented 23 percent of consolidated revenue, an increase compared to 17 percent of consolidated revenue in 2022. Included in the 2023-year's adjusted EBITDA is $13.5 million in cash-settled share-based compensation expense (2022 - $24.6 million). Adjusted EBITDA excluding cash-settled share-based compensation expense(1) in the 2023-year was $164.2 million, 25 percent of consolidated revenue (2022 - $117.3 million, 22 percent of consolidated revenue).
- The Corporation's US division achieved its highest annual revenue for the second consecutive year. US revenue in 2023 increased by 17 percent to $496.5 million and represented 76 percent of consolidated revenue.
- PHX Energy's Canadian division generated annual revenue of $155.5 million (2022 - $108.5 million), the highest level since 2014.
- For the year ended December 31, 2023, PHX Energy generated excess cash flow(2) of $92.8 million, after deducting capital expenditures of $64.9 million offset by proceeds on disposition of drilling and other equipment of $43.7 million. This level of excess cash flow is more than four times the amount generated in the 2022-year. As at December 31, 2023, the Corporation had $4.4 million of remaining distributable balance under the Return of Capital Strategy ("ROCS")(2). This balance will be carried forward into 2024 and is targeted to be used for future NCIB purchases.
- In the 2023 twelve-month period, through its previous and current NCIB, the Corporation purchased and canceled 4,032,600 common shares for $30.4 million.
- PHX Energy paid $30.2 million in dividends ($0.60 per share) in the 2023-year which is double the dividend amount paid in 2022.
- The Board has previously approved a preliminary 2024 capital expenditure budget of $70 million. With $5 million of the 2023 capital expenditure budget carried forward into 2024, the Corporation now anticipates spending $75 million in capital expenditures during 2024.
- As at December 31, 2023, the Corporation had working capital(2) of $93.9 million and net cash(2) of $8.9 million with credit facility capacity in excess of $107 million.

Financial Highlights

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

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Operating Results – Continuing Operations						
Revenue	**165,332**	157,758	5	**656,341**	535,745	23
Earnings	**33,134**	20,333	63	**98,580**	44,311	122
Earnings per share – diluted	**0.68**	0.39	74	**1.96**	0.87	125
Adjusted EBITDA (1)	**35,388**	33,874	4	**150,717**	92,719	63
Adjusted EBITDA per share – diluted (1)	**0.70**	0.66	6	**2.86**	1.83	56
Adjusted EBITDA as a percentage of revenue (1)	**21%**	21%		**23%**	17%	
Cash Flow – Continuing Operations						
Cash flows from operating activities	**36,754**	8,970	310	**96,723**	38,338	152
Funds from operations (2)	**28,167**	25,068	12	**119,317**	72,482	65
Funds from operations per share – diluted (3)	**0.56**	0.49	14	**2.26**	1.43	58
Dividends paid per share (3)	**0.15**	0.10	50	**0.60**	0.30	100
Dividends paid	**7,277**	5,078	43	**30,189**	15,148	99
Capital expenditures (3)	**15,474**	21,474	(28)	**64,932**	73,525	(12)
Excess cash flow (2)	**22,347**	14,269	57	**92,813**	21,113	340
Financial Position, December 31,						
Working capital (2)				**93,915**	94,339	-
Net debt (Net cash) (2)				**(8,869)**	4,484	n.m.
Shareholders' equity				**209,969**	176,878	19
Common shares outstanding				**47,260,472**	50,896,175	(7)

n.m. – not meaningful

Outlook

We believe the record results set in the past two years are a testament to the strength of our technology, people and commitment to providing our customers with unmatched services and value. Our positive momentum through the 2023-year and the cumulative results of the strong quarterly results led to an all-time record year on many fronts. This high level of performance allowed us to leverage our ROCS and distribute $60.6 million of our excess cash flow to reward shareholders through NCIB purchases and dividends.

- Entering 2024, we continue to be a provider of choice for 12 of the top 15 US operators, however, a few of these customers have recently altered their well profiles which has impacted our RSS utilization and average revenue per day. We do believe with the strength of our operations and marketing teams we will be able to deploy more RSS assets to new and other existing clients in upcoming quarters, especially with the addition of the iCruise technology.
- Currently, our US motor rental business' activity levels are in line with the fourth quarter of 2023. We continue to believe there is a market opportunity to deploy more rental motors and foresee further growth in later quarters of 2024. This growth will be driven by both the creation of a dedicated rental fleet that is included in our 2024 capital spending program and the current marketing strategies underway.

- The revenue stream generated from our Atlas sales business will continue in 2024 as existing customers place ongoing orders for parts to maintain their fleet. Additionally, there could be potential for further motor sales from our existing customers if they expand their fleets and possibly to new customers.

- Thus far in 2024, the strong activity levels in Canada from the fourth quarter have continued as we work for 9 of the 10 top operators. We foresee the second quarter being more resilient than typical in spring break-up, as our customer mix is currently focused on areas that are less impacted. However the weakness in natural gas prices may have an impact on the third and fourth quarter. We will continue to increase the deployment of our premium technology in Canada, and leverage recently commercialized technologies our R&D efforts have produced to gain market share and improve revenue per day.

- In 2023, our R&D expenditures increased 40 percent compared to 2022, with a significant focus on developing real-time communications technology that allows our RSS to transmit data to our MWD systems. This is a technology that Operators utilizing RSS are demanding and with our unique RSS fleet it further entrenches us as an industry leader. We believe this ancillary technology will create advantages and opportunities to seize more market share even with the static industry activity predicted.

- The strong operating and financial results in 2023, supported our ROCS program where we created $60.6 million of shareholder returns in the form of share buy backs and dividends payments. We are committed to continuing the ROCS program in 2024, and will continue to focus on delivering value to our shareholders.

With the US industry appearing to have leveled off and the Canadian industry remaining flat we are cautiously optimistic for 2024. We know we have many operational advantages and our drive to remain at the forefront of directional technology remains strong. Although we have seen a slight weakening in 2024 thus far, we foresee the first quarter 2024 on a historical basis continuing to be a top performing quarter, albeit not at the all-time records seen in 2023.

Michael Buker, President
February 27, 2024

Overall Performance

In the fourth quarter of 2023, the Corporation generated consolidated revenue of $165.3 million, an increase of 5 percent as compared to $157.8 million in the 2022-quarter. This level of quarterly revenue is the third highest level in the Corporation's history and is the record level of fourth quarter revenue. Despite the North American rig count softening further in the 2023-quarter, PHX Energy's consolidated revenue grew which was supported by strong activity in Canada and increased capacity in its fleet of premium technologies.

For the quarter ended December 31, 2023, the Corporation's US division's revenue slightly decreased by 3 percent to $122.1 million compared to the record $125.7 million in the same 2022-quarter. In the 2023 three-month period, US industry drilling activity continued to decline and during the period PHX Energy's US operating days[3] decreased by 15 percent to 4,114 days from 4,843 in the fourth quarter of 2022. The impact of the lower operating days was cushioned by the 15 percent improvement in the average revenue per day[3] for directional drilling services. Rotary Steerable ("RSS") services accounted for a larger portion of the division's activity during the 2023-quarter, and this partly contributed to the increased average revenue per day for directional drilling services quarter-over-quarter. Included in the US division revenue for the 2023 three-month period is $9.9 million of motor rental revenue and $0.9 million of motor equipment and parts sold (2022-quarter - $11.4 million and nil, respectively). In the 2023-quarter, revenue from the Corporation's US division represented 74 percent of consolidated revenue (2022 – 80 percent).

The Corporation's Canadian division generated its highest level of fourth quarter revenue since 2014 despite the Canadian industry drilling activity declining quarter-over-quarter. Canadian division revenue in the 2023 three-month period grew to $42.4 million, a 38 percent increase from $30.7 million in the same 2022-period. The Canadian segment recorded 3,099 operating days in the 2023-quarter, a 21 percent increase from the 2,571 operating days realized in the comparable 2022-quarter. Average revenue per day realized by the Canadian division also improved by 15 percent quarter-over-quarter.

For the three-month period ended December 31, 2023, earnings from operations were $33.1 million (2022 - $20.3 million) and adjusted EBITDA from continuing operations[1] was $35.4 million (2022 - $33.9 million), 21 percent of consolidated revenue. Earnings from operations in the fourth quarter of 2023 is the highest level of quarterly earnings in the Corporation's history. Included in the 2023-quarter earnings is $9.5 million of recovery of income taxes that primarily resulted from the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction. Included in the 2023 three-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $4.6 million (2022 - $6.9 million). For the three-month period ended December 31, 2023, adjusted EBITDA excluding cash-settled share-based compensation expense is $40 million (2022 - $40.8 million).

In each quarter of 2023, PHX Energy set the records for that particular quarter in revenue, earnings from continuing operations, and adjusted EBITDA from continuing operations, which accumulated to the highest annual results in the Corporation's history. For the year ended December 31, 2023, the Corporation's consolidated revenue increased by 23 percent to $656.3 million from $535.7 million in 2022. Earnings from continuing operations for the 2023-year more than doubled to $98.6 million from $44.3 million in the 2022-year. Adjusted EBITDA from continuing operations was $150.7 million (23 percent of revenue), a 63 percent improvement compared to the $92.7 million (17 percent of revenue) reported in the 2022-year. Included in the 2023 twelve-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $13.5 million (2022 - $24.6 million). For the year ended December 31, 2023, adjusted EBITDA excluding cash-settled share-based compensation expense is $164.2 million (2022 - $117.3 million).

In November 2023, the Corporation increased the borrowing capacity in the syndicated facility from CAD $50 million to CAD $80 million and in the US operating facility from USD $15 million to USD $20 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2026. With the increased borrowing capacity, the Corporation has approximately CAD $87 million and USD $20 million available to be drawn from its credit facilities. As at December 31, 2023, the Corporation had working capital[2] of $93.9 million and net cash[2] of $8.9 million.

Dividends and ROCS

In November 2023, the Board approved an increase to the Corporation's quarterly dividend to $0.20 per common share from $0.15 per common share, which commenced with the dividend payable January 15, 2024 to shareholders of record at the close of business on December 29, 2023. An aggregate of $9.5 million was paid on January 15, 2024. This is the fifth dividend increase since the dividend program was reinstated in December 2020 and is a 700 percent increase from the dividend payable on December 31, 2020.

The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") that includes multiple options including the dividend program and the NCIB. In 2023, 70 percent of PHX Energy's excess cash flow(2) was $65 million, $30.4 million of which was used to repurchase shares under the NCIB and $30.2 million was used to pay dividends to shareholders. The remaining distributable balance under ROCS(2) of $4.4 million will be carried forward into 2024 and is targeted to be used for future NCIB purchases.

(Stated in thousands of dollars)

	Year ended December 31, 2023
Excess cash flow(2)	**92,813**
70% of excess cash flow	**64,969**
Deduct:	
Repurchase of shares under the NCIB	**(30,366)**
Dividends paid to shareholders	**(30,189)**
Remaining Distributable Balance under ROCS(2)	**4,414**

Normal Course Issuer Bid

During the third quarter of 2023, the TSX approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,552,810 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 2, 2023. The NCIB commenced on August 16, 2023 and will terminate on August 15, 2024. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the previous and current NCIB, 4,032,600 common shares were purchased by the Corporation for $30.4 million and cancelled in the year-ended December 31, 2023. Pursuant to the previous NCIB, no common shares were purchased during the 2022-year by the Corporation and cancelled.

Capital Spending

For the year ended December 31, 2023, the Corporation spent $64.9 million in capital expenditures, of which $34.4 million was spent on growing the Corporation's fleet of drilling equipment, $14.6 million was spent to replace retired assets, and $15.9 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $43.7 million, the Corporation's net capital expenditures(2) for the 2023-year were $21.2 million. Capital expenditures in the 2023-year were primarily directed towards Atlas High Performance motors (“Atlas”), Velocity Real-Time systems (“Velocity”), and RSS. PHX Energy funded capital spending primarily using proceeds on disposition of drilling equipment, cash flows from operating activities, and its credit facilities when required.

(Stated in thousands of dollars)

	Three-month period ended December 31, 2023	Year ended December 31, 2023
Growth capital expenditures[3]	7,026	34,382
Maintenance capital expenditures[3] to replace retired assets	3,066	14,609
Maintenance capital expenditures[3] to replace equipment lost downhole during drilling operations	5,382	15,941
	15,474	64,932
Deduct:		
Proceeds on disposition of drilling equipment	(10,997)	(43,686)
Net capital expenditures[2]	4,477	21,246

As at December 31, 2023, the Corporation had capital commitments to purchase drilling and other equipment for $42.7 million, $35.2 million of which is growth capital and includes $20 million for performance drilling motors, $11 million for Velocity systems, and $4.2 million for other equipment. Equipment on order as at December 31, 2023 is expected to be delivered within the first half of 2024.

The Board has approved a preliminary 2024 capital expenditure program of $70 million. Of the 2023 capital expenditure budget, $5 million was not spent in 2023 and will be carried forward into 2024. As a result of this carry over, the Corporation now anticipates spending $75 million in capital expenditures during 2024. Of the total expenditures, $47 million is anticipated to be spent on growth and expected to be allocated towards: building larger fleets of recently commercialized supplementary technologies that create value added capabilities within the premium fleet and are already in high demand; additional motor capacity to grow the Atlas rental division; and add required Velocity systems, RSS and Atlas motors to continue to meet demand for full service operations. The remaining $28 million is anticipated to be spent to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations.

The Corporation currently possesses approximately 741 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", 9.00" and 9.62" Atlas motors, and 115 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 63 RSS tools and the only fleet currently comprised of both the PowerDrive Orbit and iCruise systems.

Sale and Licensed Use of Atlas Motors

In the second and third quarter of 2023, the Corporation agreed upon the sale and licensed use of its Atlas motors to allow an existing US and international client to establish their own fleet. Under these agreements, the purchasers must exclusively use components manufactured by the Corporation for the maintenance of their fleets of Atlas motors. For the year ended December 31, 2023, $11 million of motors and parts were sold. PHX Energy anticipates ongoing orders for parts and the purchasers could potentially place subsequent orders for additional Atlas motors in the upcoming year.

Non-GAAP and Other Financial Measures

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

Footnotes throughout this document reference:

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

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

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

Revenue

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**154,125**	146,047	6	**598,339**	502,416	19
Motor rental	**10,332**	11,711	(12)	**47,009**	33,329	41
Sale of motor equipment and parts	**875**	-	n.m.	**10,993**	-	n.m.
Total revenue	**165,332**	157,758	5	**656,341**	535,745	23

n.m. – not meaningful

In the three-month period ended December 31, 2023, PHX Energy achieved its third highest level of quarterly revenue in its history, with the third quarter of 2023 being the all-time highest and the first quarter of 2023 being the second. As a result of the record quarterly achievements, the Corporation's consolidated revenue for the 2023-year is the greatest-ever annual revenue in its history. Consolidated revenue in the fourth quarter increased by 5 percent to $165.3 million compared to $157.8 million in the corresponding 2022-quarter and annual consolidated revenue was $656.3 million, an increase of 23 percent compared to $535.7 million in 2022.

In the fourth quarter of 2023, rig counts in both Canada and the US continued to decline. The average number of horizontal and directional rigs operating per day in the US dropped by 19 percent to 608 in the 2023 three-month period from 752 in the corresponding 2022-period. In Canada, the average rig count in the 2023-quarter declined by 3 percent to 181 from 187 in the fourth quarter of 2022 (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, https://rigcount.bakerhughes.com/na-rig-count). In comparison, PHX Energy's consolidated operating days(3) held relatively steady, only decreasing 3 percent to 7,277 days in the 2023-quarter from 7,509 days in the 2022-quarter. On an annual basis, the Canadian rig count held steady year-over-year whereas the US rig count declined 5 percent year-over-year. For the year-ended December 31, 2023, PHX Energy recorded 29,192 consolidated operating days which is 3 percent more than the 28,368 days in the 2022-year. The Corporation was able to outpace the industry trends as a result of its strong position as premium technology provider and the increased capacity and utilization of these technologies along with the strength of its marketing and operations teams. Additionally, these strengths also contributed to improvements to the Corporation's average consolidated revenue per day(3) for directional drilling services. In particular, the portion of activity in the US that utilizes RSS services grew especially with the recent addition of a second brand of RSS technology, and the cumulative impact of previous pricing increases. Average consolidated revenue per day for directional drilling services improved by 9 percent to $21,178 in the 2023-quarter (2022-quarter – $19,449) and 17 percent to $20,497 in the 2023-year (2022 – $17,448).

During the 2023-year, PHX Energy expanded its Atlas rental and sales divisions. For the year ended December 31, 2023, revenue generated from the Atlas motor rental division grew by 41 percent to $47 million from $33.3 million in 2022. In the 2023-quarter, Atlas motor rental revenue declined by 12 percent mainly due to the quarter-over-quarter drop in the US industry rig count. In the 2023 twelve-month period, $11 million was generated from the sale of Atlas motors and parts under PHX Energy's two existing sales agreements.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Direct costs	**129,240**	121,906	6	**506,236**	426,107	19
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,056**	8,876	13	**38,861**	32,119	21
Depreciation & amortization right-of-use asset (included in direct costs)	**841**	805	4	**2,898**	3,235	(10)
Gross profit as a percentage of revenue excluding depreciation & amortization (1)	**28%**	29%		**29%**	27%	

Direct costs are comprised of field and shop expenses, costs of motors and parts sold, and include depreciation and amortization on the Corporation's equipment and right-of-use assets. For the three-month period and year ended December 31, 2023, direct costs increased by 6 percent to $129.2 million (2022 - $121.9 million) and 19 percent to $506.2 million (2022 - $426.1 million), respectively.

The increase in direct costs in both 2023-periods is mainly due to:

- greater servicing costs and equipment rentals associated with higher levels of RSS activity,
- higher volume of motor servicing and related costs associated with increased Atlas motor rental activity,
- addition of the costs of motors and parts sold that were nil in both 2022-periods, and
- rising personnel-related costs.

In addition, the Corporation's depreciation and amortization on drilling and other equipment for the 2023 three and twelve-month period increased by 13 percent and 21 percent, respectively, mainly as a result of the additions to fixed assets throughout 2023.

For the three-month period and year ended December 31, 2023, gross profit as a percentage of revenue excluding depreciation and amortization(1) was 28 percent and 29 percent, respectively, compared to 29 percent and 27 percent in the corresponding 2022-periods. The slight decrease in profitability in the 2023-quarter is partly attributable to lower motor rental activity in the US and increasing equipment rental costs. For the 2023 twelve-month period, greater profitability was largely driven by higher margins from the Corporation's premium technologies and additional profits realized from PHX Energy's growing Atlas motor rental and sales divisions.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Selling, general and administrative ("SG&A") costs	**18,004**	19,365	(7)	**68,915**	68,901	-
Cash-settled share-based compensation (included in SG&A costs)	**4,572**	6,938	(34)	**13,470**	24,568	(45)
Equity-settled share-based compensation (included in SG&A costs)	**60**	58	3	**491**	451	9
SG&A costs excluding share-based compensation as a percentage of revenue(1)	**8%**	8%		**8%**	8%	

For the three-month period and year ended December 31, 2023, SG&A costs were $18 million and $68.9 million, respectively, as compared to $19.4 million and $68.9 million in the corresponding 2022-periods. In the 2023-quarter, the decrease in SG&A costs of 7 percent was mainly due to lower cash-settled share-based compensation expense during the period compared to the 2022-quarter. In the 2023-year, SG&A costs were largely comparable to the prior year as increases in personnel-related costs were offset by decreases in compensation expenses related to cash-settled share-based awards.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three-month period and year ended December 31, 2023, the related compensation expense recognized by PHX Energy was $4.6 million (2022 - $6.9 million) and $13.5 million (2022 - $24.6 million), respectively. Changes in cash-settled share-based compensation expense in the 2023-periods were mainly driven by fluctuations in the Corporation's share price, the number of awards granted in the period, and changes in the estimated payout multiplier for performance awards. In 2023, the number of retention awards granted was lower compared to 2022 and the number of units that vested during the 2023-periods was also fewer. There were 2,160,151 retention awards outstanding as at December 31, 2023 (2022 – 2,845,191). SG&A costs excluding share-based compensation as a percentage of revenue(1) for the 2023 three and twelve-month periods were 8 percent in both periods, the same level as in both corresponding 2022-periods.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Research and development expense	**1,393**	1,184	18	**5,210**	3,722	40

For the three-month period and year ended December 31, 2023, PHX Energy's research and development ("R&D") expenditures increased to $1.4 million and $5.2 million, respectively, from $1.2 million and $3.7 million in the corresponding 2022-periods. During both 2023-periods, the Corporation's R&D department focused on developing supplementary technologies that would create value added capabilities within PHX Energy's suite of premium fleet. Greater personnel-related costs and prototype expenses were necessary to support these initiatives. The Corporation also remained focused on supporting new and ongoing initiatives aimed at continuously improving the reliability of its equipment and reducing the costs of operations.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Finance expense	**448**	487	(8)	**2,422**	1,360	78
Finance expense lease liabilities	**551**	525	5	**2,245**	2,032	10

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period and year ended December 31, 2023, finance expenses decreased to $0.4 million (2022 - $0.5 million) and increased to $2.4 million (2022 - $1.4 million), respectively. The decrease in finance expenses in the 2023-quarter was primarily due to lower drawings on the credit facilities in the period. In the 2023-year, finance expenses increased mainly due to higher amounts of loans and borrowings in the first part of the year that were used to fund PHX Energy's capital spending, and rising variable interest rates on the Corporation's operating and syndicated facilities.

Finance expense lease liabilities relate to interest expenses incurred on lease liabilities. For the three and twelve-month periods ended December 31, 2023, finance expense lease liabilities increased to $0.6 million and $2.2 million, respectively (2022 - $0.5 million and $2 million, respectively), primarily due to new premise leases entered in the fourth quarter of 2022 and first quarter of 2023 for a new facility in Midland, Texas and additional head office space in Calgary, Alberta.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Net gain on disposition of drilling equipment	**7,444**	8,693	**31,347**	19,492
Foreign exchange gains (losses)	**533**	(5)	**1,107**	(287)
Recovery of (provision for) bad debts	**-**	11	**(117)**	13
Other	**-**	-	**-**	512
Other income	**7,977**	8,699	**32,337**	19,730

For the three-month period and year ended December 31, 2023, the Corporation recognized other income of $8 million and $32.3 million, respectively (2022 - $8.7 million and $19.7 million, respectively). In both periods, other income was mainly comprised of net gain on disposition of drilling equipment. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life. Throughout 2023, a larger percentage of PHX Energy's activity involved utilizing premium technologies, particularly RSS in the US. In the 2023-year, more instances of high dollar valued downhole equipment losses occurred as compared to the prior year resulting in a higher net gain on disposition of drilling equipment. In the 2023-quarter, the Corporation's US drilling activity declined by 15 percent leading to fewer instances of high dollar valued downhole equipment losses. The Corporation will use capital expenditure funds, including the proceeds from disposition of drilling equipment, to replace this equipment and these amounts will be added to the capital expenditures[(3)] in 2024.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Provision for (Recovery of) income taxes	**(9,460)**	2,657	**5,070**	9,042
Effective tax rates (3)	**n.m.**	12%	**5%**	17%

n.m. – not meaningful

For the three-month period and year ended December 31, 2023, the Corporation reported a recovery of income tax of $9.5 million (2022 – provision for income taxes of $2.7 million), and a provision for income taxes of $5.1 million (2022 - $9 million), respectively. Recovery of income taxes in the 2023-quarter and lower provision for income taxes in the 2023-year were primarily attributable to the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction. PHX Energy's effective tax rates(3) in the 2023-periods were lower than the combined US federal and state corporate income tax rate of 21 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent, due to the recognition of previously unrecognized deferred tax assets that were applied to income for tax purposes in Canada.

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

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Operating Results – Continuing Operations						
Earnings	**33,134**	20,333	63	**98,580**	44,311	122
Earnings per share – diluted	**0.68**	0.39	74	**1.96**	0.87	125
Adjusted EBITDA (1)	**35,388**	33,874	4	**150,717**	92,719	63
Adjusted EBITDA per share – diluted (1)	**0.70**	0.66	6	**2.86**	1.83	56
Adjusted EBITDA as a percentage of revenue (1)	**21%**	21%		**23%**	17%	

For the three-month period and year ended December 31, 2023, the Corporation's earnings from continuing operations increased by 63 percent to $33.1 million (2022 - $20.3 million) and more than doubled to $98.6 million (2022 - $44.3 million), respectively. These are the best levels of quarterly and annual earnings achieved in the Corporation's history. Included in the 2023-periods' earnings from continuing operations is $9.5 million in recovery of income taxes that mainly resulted from the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction.

In the fourth quarter of 2023, adjusted EBITDA from continuing operations was $35.4 million, a 4 percent increase compared to $33.9 million in the corresponding 2022-quarter. In the 2023-year, adjusted EBITDA from continuing operations increased by 63 percent to $150.7 million, 23 percent of revenue, from $92.7 million, 17 percent of revenue in 2022. Greater profitability achieved in both 2023-periods were primarily driven by higher margins from PHX Energy's premium technologies and additional profits realized from PHX Energy's growing Atlas motor rental and sales divisions.

Segmented Information

The Corporation reports three operating segments on a geographical basis throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US; throughout the Western Canadian Sedimentary Basin, and internationally in Albania.

United States

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**111,350**	114,316	(3)	**440,385**	390,881	13
Motor rental	**9,853**	11,377	(13)	**45,145**	32,202	40
Sale of motor equipment and parts	**875**	-	n.m.	**10,993**	-	n.m.
Total US revenue	**122,078**	125,693	(3)	**496,523**	423,083	17
Reportable segment profit before tax	**18,772**	23,643	(21)	**84,225**	64,030	32

n.m. – not meaningful

Despite the continued slowdown in US industry activity in the fourth quarter of 2023, PHX Energy's US operations remained robust and generated revenue of $122.1 million, which is only 3 percent lower than the record $125.7 million generated in the fourth quarter of 2022. With strong revenue generated in all of the quarters in 2023, the Corporation's US division achieved its highest annual revenue for the second consecutive year. US revenue in the 2023 twelve-month period grew by 17 percent to $496.5 million from $423.1 million in the same 2022-period.

In the fourth quarter of 2023, US industry horizontal and directional rig count dropped by 19 percent with an average of 608 active horizontal and directional rigs per day compared to an average of 752 active horizontal and directional rigs per day in the 2022-quarter (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). In comparison, the Corporation's US operating days[(3)] declined by 15 percent to 4,114 days from 4,843 days in the 2022-quarter. For the year-ended December 31, 2023, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, decreased by 4 percent to 671 rigs from 698 rigs in 2022 (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). The US segment's operating days were 17,347 in the 2023-year compared to 18,248 in 2022; a decrease of 5 percent.

Horizontal and directional drilling continued to represent the majority of rigs running on a daily basis during the fourth quarter and year ended 2023. During the 2023-year, Phoenix USA was active in the Permian, Eagle Ford, Scoop/Stack, Marcellus, Utica, Bakken, and Niobrara basins.

Throughout 2023, PHX Energy continued to expand its fleet of premium technologies in the US and in the fourth quarter of the year added a second brand of RSS technology to its fleet. With higher levels of RSS activity and increased capacity and utilization of premium technologies, the US division's average revenue per day[(3)] for directional drilling services in the 2023-quarter rose to $27,069 from $23,604 in the 2022-quarter, a 15 percent increase. For the year ended December 31, 2023, average revenue per day for directional drilling services grew by 19 percent to $25,387 from $21,420 in 2022. The continuing favorable impact of the US dollar strengthening relative to 2022 also supported the improved average consolidated revenue per day in the 2023 twelve-month period. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services increased by 16 percent in 2023.

In the 2023-year, the Corporation further expanded its Atlas motor rental division and grew its revenue by 40 percent to $45.1 million from $32.2 million in 2022. As US industry activity declined in the 2023-quarter, PHX Energy's US motor rental activity saw a similar trend which contributed to the decrease in US motor rental revenue to $9.9 million from $11.4 million in the 2022-quarter. Despite the slowdown in industry activity, the Corporation sees further growth opportunities for this business line as it provides the ability to penetrate the portion of the US market that is not accessible through its full service offering. With additional Atlas motors expected to be delivered in the first half of 2024, the Corporation plans to dedicate a portion of these motors to the rental fleet to continue the expansion of this division.

In the 2023 three and twelve-month period, PHX Energy's US operations also sold Atlas motor equipment and parts to certain customers and generated $0.9 million and $11 million of revenue from this business line, respectively. As the Corporation continues to support these customers' owned fleet of Atlas motors, a steady stream of revenue is expected to continue in future periods.

For the three-month period ended December 31, 2023, the US segment's reportable segment income before tax decreased by 21 percent to $18.8 million from $23.6 million in the same 2022-period. The decline in the segment's profitability during the 2023-quarter was primarily due to rising personnel-related costs, higher use of rented equipment in its full service operations, and lower drilling and motor rental activity. In the 2023-year, the US segment's reportable segment income before tax improved by 32 percent to $84.2 million from $64 million in 2022. Higher profitability in the 2023-year was primarily driven by greater margins from premium technologies and growth in the rental and sale of Atlas motors.

Canada

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**41,921**	30,371	38	**153,637**	107,417	43
Motor rental	**479**	334	43	**1,864**	1,127	65
Total Canadian revenue	**42,400**	30,705	38	**155,501**	108,544	43
Reportable segment profit before tax	**5,508**	771	n.m.	**23,337**	8,700	168

n.m. – not meaningful

For the three-month period and year ended December 31, 2023, PHX Energy's Canadian operations generated revenue of $42.4 million (2022 - $30.7 million) and $155.5 million (2022 - $108.5 million), respectively, the highest level of fourth quarter and annual revenue since 2014.

Canadian operating days[3] in the 2023 three-month period rose by 21 percent to 3,099 days compared to 2,571 days in the same 2022-quarter. In comparison, industry horizontal and directional drilling activity, as measured by drilling days, declined by 5 percent to 15,895 in the fourth quarter of 2023 from 16,813 in the 2022-quarter (Source: Daily Oil Bulletin, hz-dir days 231231). For the year ended December 31, 2023, there were 59,809 horizontal and directional drilling days realized in the Canadian industry, compared to the 60,276 days realized in 2022, a one percent decrease (Source: Daily Oil Bulletin, hz-dir days 231231). In comparison, drilling activity in the Canadian segment improved by 17 percent from 9,823 operating days in 2022 to 11,526 days in 2023. In both 2023-periods, PHX Energy's Canadian activity far exceeded that of the industry and this was largely driven by the Corporation's successful expansion of its client base. Through the strength of its marketing and operations teams, PHX Energy has maintained a strong reputation as a market leader and is among the top service providers in the industry. During the 2023-year, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, Ellerslie, and Scallion basins.

The increase in the Canadian division's quarterly and annual revenue in the 2023-periods was also supported by improvements in average revenue per day[3] for directional drilling services which increased by 15 percent to $13,529 in the 2023-quarter from $11,813 in the corresponding 2022-quarter and increased by 22 percent to $13,330 in the 2023-year from $10,935 in 2022. Higher average per day realized in the 2023-periods mainly resulted from increased deployment of premium technologies, targeted marketing efforts, and cumulative impact of previous pricing increases.

As a result of greater activity and improved average revenue per day, PHX Energy's Canadian reportable segment profits grew to $5.5 million in the 2023-quarter (2022 - $0.8 million) and $23.3 million in the 2023-year (2022 - $8.7 million).

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Revenue	**854**	1,360	(37)	**4,317**	4,118	5
Reportable segment profit (loss) before tax	**(49)**	631	n.m.	**1,199**	1,412	(15)

n.m. – not meaningful

The Corporation's international segment revenue is comprised of revenue from Albania. For the three-month period and year ended December 31, 2023, the international segment's revenue was $0.9 million (2022-quarter - $1.4 million) and $4.3 million (2022 - $4.1 million), respectively. Albania operations resumed late in the first quarter of 2022 with one rig. In the 2023-quarter, international revenue decreased by 37 percent due to the rig's operation being suspended for two months. Late in the fourth quarter of 2023, a second rig was deployed and in January 2024, Albania operations were active with two rigs.

For the three-month period ended December 31, 2023, the international segment reported a loss before tax of $49 thousand compared to reportable segment profit before tax of $0.6 million in the 2022-period. For the year-ended December 31, 2023, the international segment realized reportable segment profit before tax of $1.2 million as compared to a profit of $1.4 million in the corresponding 2022-year. The decrease in profitability in both 2023-periods was mainly due to the temporary suspension of the rig's operation and rising personnel-related costs.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2023 was $20.3 million as compared to $47.3 million in 2022. During 2023, the Corporation spent $34.4 million (2022 - $48.5 million) to grow the Corporation's fleet of drilling equipment and $30.6 million (2022 - $25.1 million) was used to maintain capacity in the Corporation's fleet of drilling equipment and replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $43.7 million (2022 - $27.5 million), the Corporation's net capital expenditures for 2023 were $21.2 million (2022 - $46.1 million).

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Growth capital expenditures(3)	**7,026**	15,252	**34,382**	48,457
Maintenance capital expenditures(3) to replace downhole equipment losses and asset retirements	**8,448**	6,222	**30,550**	25,068
Total capital expenditures(3)	**15,474**	21,474	**64,932**	73,525
Deduct:				
Proceeds on disposition of drilling equipment	**(10,997)**	(12,005)	**(43,686)**	(27,459)
Net capital expenditures(2)	**4,477**	9,469	**21,246**	46,066

The 2023-year capital expenditures comprised of:

- $38.9 million in MWD systems and spare components and RSS;
- $22.9 million in downhole performance drilling motors; and
- $3.1 million in machinery and equipment and other assets.

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

The change in non-cash working capital balances of $1.7 million (source of cash) relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $7 thousand in 2022.

Financing Activities

For the year ended December 31, 2023, net cash used in financing activities was $77.9 million as compared to $2.7 million in 2022. In the 2023-year:

- dividends of $30.2 million were paid to shareholders;
- 4,032,600 common shares were purchased by the Corporation for $30.4 million and cancelled under the NCIB;
- 114,000 common shares were purchased by an independent trustee in the open market for $0.6 million and held in trust for the use of potential future settlements of retention awards granted under the Corporation's RAP;
- 121,763 common shares were issued from treasury for proceeds of $1 million upon the exercise of share options;
- payments of $3 million were made towards lease liabilities; and
- $14.7 million net repayments were made towards the Corporation's syndicated credit facility.

Capital Resources

As of December 31, 2023, the Corporation had CAD $7.6 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $16.4 million. As at December 31, 2023, the Corporation had CAD $87 million and USD $20 million available from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2026.

As at December 31, 2023, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at December 31, 2023**
Debt to covenant EBITDA[i]	<3.0x	**0.05**
Interest coverage ratio[i]	>3.0x	**60.06**

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

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

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures[3] and acquisitions through cash flows from operating activities, proceeds on disposition of drilling equipment, debt and equity. With $5 million carried over from the 2023 capital expenditure budget and the previously approved preliminary 2024 capital expenditure program of $70 million, PHX Energy anticipates spending $75 million of capital expenditures in 2024. Of the total expenditures, $47 million is targeted to be spent on growth and $28 million is expected to be allocated to maintain capacity in the existing fleet of drilling and other equipment and replace equipment lost downhole during drilling operations. The amount expected to be allocated towards replacing equipment lost downhole could increase should more downhole equipment losses occur throughout the year.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2024, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at December 31, 2023, the Corporation has commitments to purchase drilling and other equipment for $42.7 million. Delivery is expected to occur within the first half of 2024.

About PHX Energy Services Corp.

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

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

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

For further information please contact:

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Condensed Consolidated Interim Statements of Financial Position

(Stated in thousands of dollars)	**December 31, 2023**	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 16,433**	$ 18,247
Trade and other receivables	**121,334**	125,836
Inventories	**63,173**	63,120
Prepaid expenses	**2,409**	3,024
Current tax assets	**3,691**	-
Total current assets	**207,040**	210,227
Non-current assets:		
Drilling and other long-term assets	**128,263**	115,945
Right-of-use asset	**27,056**	29,336
Intangible assets	**14,200**	15,668
Investments	**3,001**	3,001
Other long-term assets	**1,284**	993
Deferred tax assets	**4,650**	54
Total non-current assets	**178,454**	164,997
Total assets	**$ 385,494**	$ 375,224
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	**$ 100,438**	$ 104,689
Dividends payable	**9,453**	7,636
Lease liability	**3,234**	2,907
Current tax liabilities	**-**	656
Total current liabilities	**113,125**	115,888
Non-current liabilities:		
Lease liability	**33,972**	36,768
Loans and borrowings	**7,564**	22,731
Deferred tax liability	**16,822**	18,497
Other	**4,042**	4,462
Total non-current liabilities	**62,400**	82,458
Equity:		
Share capital	**222,653**	251,345
Contributed surplus	**7,168**	7,044
Deficit	**(45,695)**	(112,121)
Accumulated other comprehensive income	**25,843**	30,610
Total equity	**209,969**	176,878
Total liabilities and equity	**$ 385,494**	$ 375,224

Condensed Consolidated Interim Statements of Comprehensive Earnings

(Stated in thousands of dollars except earnings per share)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Revenue	**$ 165,332**	$ 157,758	**$ 656,341**	$ 535,745
Direct costs	**129,240**	121,906	**506,236**	426,107
Gross profit	**36,092**	35,852	**150,105**	109,638
Expenses:				
Selling, general and administrative expenses	**18,003**	19,365	**68,915**	68,901
Research and development expenses	**1,393**	1,184	**5,210**	3,722
Finance expense	**448**	487	**2,422**	1,360
Finance expense lease liability	**551**	525	**2,245**	2,032
Other income	**(7,977)**	(8,699)	**(32,337)**	(19,730)
	12,418	12,862	**46,455**	56,285
Earnings from continuing operations before income taxes	**23,674**	22,990	**103,650**	53,353
Provision for (recovery of) income taxes				
Current	**(3,157)**	363	**10,435**	760
Deferred	**(6,303)**	2,294	**(5,365)**	8,282
	(9,460)	2,657	**5,070**	9,042
Earnings from continuing operations	**33,134**	20,333	**98,580**	44,311
Discontinued operations				
Net loss from discontinued operations, net of taxes	**-**	-	**-**	(14,558)
Net earnings	**33,134**	20,333	**98,580**	29,753
Other comprehensive income (loss)				
Foreign currency translation	**(3,752)**	(1,743)	**(4,767)**	8,820
Reclassification of foreign currency translation loss on disposition	**-**		**-**	10,561
Total comprehensive earnings	**$ 29,382**	$ 18,590	**$ 93,813**	$ 49,134
Earnings per share – basic				
Continuing operations	**$ 0.69**	$ 0.40	**$ 1.98**	$ 0.88
Discontinued operations	**$ -**	$ -	**$ -**	$ (0.29)
Net earnings	**$ 0.69**	$ 0.40	**$ 1.98**	$ 0.59
Earnings per share – diluted				
Continuing operations	**$ 0.68**	$ 0.39	**$ 1.96**	$ 0.87
Discontinued operations	**$ -**	$ -	**$ -**	$ (0.29)
Net earnings	**$ 0.68**	$ 0.39	**$ 1.96**	$ 0.58

Condensed Consolidated Interim Statements of Cash Flows

(Stated in thousands of dollars)	Three-month periods ended December 31, 2023	Three-month periods ended December 31, 2022	Years ended December 31, 2023	Years ended December 31, 2022
Cash flows from operating activities:				
Earnings from continuing operations	**$ 33,134**	$ 20,333	**$ 98,580**	$ 44,311
Adjustments for:				
Depreciation and amortization	**10,056**	8,876	**38,861**	32,119
Depreciation and amortization right-of-use asset	**841**	805	**2,898**	3,235
Provision for income taxes	**(9,460)**	2,657	**5,070**	9,042
Unrealized foreign exchange loss	**(242)**	133	**150**	169
Net gain on disposition of drilling equipment	**(7,444)**	(8,693)	**(31,347)**	(19,492)
Equity-settled share-based payments	**60**	58	**491**	451
Finance expense	**448**	487	**2,422**	1,360
Finance expense lease liability	**551**	525	**2,245**	2,032
Provision for (recovery of) bad debts	**-**	(12)	**117**	(13)
Provision for inventory obsolescence	**773**	423	**2,075**	1,299
Interest paid on lease liabilities	**(551)**	(525)	**(2,245)**	(2,032)
Interest paid	**(555)**	(250)	**(2,061)**	(841)
Income taxes (paid) received	**(6,325)**	3	**(14,859)**	232
Change in non-cash working capital	**15,468**	(15,850)	**(5,674)**	(33,534)
Continuing operations	**36,754**	8,970	**96,723**	38,338
Discontinued operations	**-**	-	**-**	(1,255)
Net cash from operating activities	**36,754**	8,970	**96,723**	37,083
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**10,997**	12,005	**43,686**	27,459
Acquisition of drilling and other equipment	**(15,474)**	(21,474)	**(64,932)**	(73,525)
Acquisition of intangible assets	**(686)**	(569)	**(686)**	(1,261)
Change in non-cash working capital	**(480)**	(332)	**1,670**	7
Continuing operations	**(5,643)**	(10,370)	**(20,262)**	(47,320)
Discontinued operations	**-**	-	**-**	(68)
Net cash used in investing activities	**(5,643)**	(10,370)	**(20,262)**	(47,388)
Cash flows from financing activities:				
Repurchase of shares under the NCIB	**(11,264)**	-	**(30,366)**	-
Dividends paid to shareholders	**(7,277)**	(5,078)	**(30,189)**	(15,148)
Net proceeds on (net repayment of) loans and borrowings	**(10,500)**	(1,269)	**(14,731)**	22,731
Payments of lease liability	**(792)**	(805)	**(3,013)**	(3,271)
Purchase of shares held in trust	**-**	(610)	**(612)**	(4,110)
Proceeds from exercise of options	**200**	333	**964**	2,504
Change in non-cash working capital	**414**	-		
Continuing operations	**(29,219)**	(7,429)	**(77,947)**	2,706
Discontinued operations	**-**	-	**-**	-
Net cash from (used in) financing activities	**(29,219)**	(7,429)	**(77,947)**	2,706
Net decrease in cash and cash equivalents	**1,892**	(8,829)	**(1,486)**	(7,599)
Cash and cash equivalents, beginning of period	**14,845**	27,024	**18,247**	24,829
Effect of movements in exchange rates on cash held	**(304)**	52	**(328)**	1,017
Cash and cash equivalents, end of period	**$ 16,433**	$ 18,247	**$ 16,433**	$ 18,247

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

In particular, forward-looking information and statements contained in this document include without limitation, the Corporation’s intent to preserve balance sheet strength and continue to reward shareholders, including through its dividend program, the ROCS program and NCIB, intentions for the distributable cash remaining under ROCS, PHX Energy's intentions with respect to the NCIB and purchases thereunder and the effects of repurchases under the NCIB the anticipated industry activity and demand for the Corporation’s services and technologies in North America, the projected capital expenditures budget for 2024 ,and how the budget will be allocated and funded, the timeline for delivery of equipment on order, the anticipated continuation of the revenue and profitability generated by both the Atlas sales and rental divisions, and the anticipated continuation of PHX Energy’s quarterly dividend program and the amounts of dividends.

The above are stated under the headings: “Financial Results”, “Overall Performance”, “Dividends and ROCS”, “Capital Spending”, “Sales and Licensed Use of Atlas Motors”, “Revenue”, “Segmented Information” and “Capital Resources”. In addition, all information contained under the heading “Outlook” of this document may contain forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this document and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, without limitation, that: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions and the accuracy of the Corporation’s market outlook expectations for 2024 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the potential impact of pandemics, the Russian-Ukrainian war, Middle-East conflict and other world events on the global economy, specifically trade, manufacturing, supply chain, inflation and energy consumption, among other things and the resulting impact on the Corporation’s operations and future results which remain uncertain; exchange and interest rates, and inflationary pressures including the potential for further interest rate hikes by global central banks and the impact on financing charges and foreign exchange and the anticipated global economic response to concerted interest rate hikes; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

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

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) Adjusted EBITDA from Continuing Operations

Adjusted EBITDA from continuing operations, 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 from continuing operations provides supplemental information to earnings from continuing operations 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 from continuing operations should not be construed as an alternative measure to earnings from continuing operations determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA from continuing operations may differ from that of other organizations and, accordingly, its adjusted EBITDA from continuing operations may not be comparable to that of other companies.

The following is a reconciliation of earnings from continuing operations to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Earnings from continuing operations:	**33,134**	20,333	**98,580**	44,311
Add:				
Depreciation and amortization drilling and other equipment	**10,056**	8,876	**38,861**	32,119
Depreciation and amortization right-of-use asset	**841**	805	**2,898**	3,235
Provision for (recovery of) income taxes	**(9,460)**	2,657	**5,070**	9,042
Finance expense	**448**	487	**2,422**	1,360
Finance expense lease liability	**551**	525	**2,245**	2,032
Equity-settled share-based payments	**60**	58	**491**	451
Unrealized foreign exchange loss (gain)	**(242)**	133	**150**	169
Adjusted EBITDA from continuing operations	**35,388**	33,874	**150,717**	92,719

b) Adjusted EBITDA from Continuing Operations Per Share - Diluted

Adjusted EBITDA from continuing 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 adjusted EBITDA from continuing operations per share - dilutive is based on the adjusted EBITDA from continuing operations as reported in the table above divided by the diluted number of shares outstanding as quantified in Note 10(b) in the Notes to the Consolidated Financial Statements.

c) Adjusted EBITDA from Continuing Operations as a Percentage of Revenue

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

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Earnings from continuing operations:	**33,134**	20,333	**98,580**	44,311
Add:				
Depreciation and amortization drilling and other equipment	**10,056**	8,876	**38,861**	32,119
Depreciation and amortization right-of-use asset	**841**	805	**2,898**	3,235
Provision for (recovery of) income taxes	**(9,460)**	2,657	**5,070**	9,042
Finance expense	**448**	487	**2,422**	1,360
Finance expense lease liability	**551**	525	**2,245**	2,032
Equity-settled share-based payments	**60**	58	**491**	451
Unrealized foreign exchange loss	**(242)**	133	**150**	169
Cash-settled share-based compensation expense	**4,572**	6,938	**13,470**	24,568
Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense	**39,960**	40,812	**164,187**	117,287

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

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

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Revenue	**165,332**	157,758	**656,341**	535,745
Direct costs	**129,240**	121,906	**506,236**	426,107
Gross profit	**36,092**	35,852	**150,105**	109,638
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,056**	8,876	**38,861**	32,119
Depreciation & amortization right-of-use asset (included in direct costs)	**841**	805	**2,898**	3,235
	46,989	45,533	**191,864**	144,992
Gross profit as a percentage of revenue excluding depreciation & amortization	**28%**	29%	**29%**	27%

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
SG&A Costs	**18,004**	19,365	**68,915**	68,901
Deduct:				
Share-based compensation (included in SG&A)	**4,632**	6,996	**13,961**	25,019
	13,372	12,369	**54,954**	43,882
Revenue	**165,332**	157,758	**656,341**	535,745
SG&A costs excluding share-based compensation as a percentage of revenue	**8%**	8%	**8%**	8%

Capital Management Measures

a) Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**36,754**	8,970	**96,723**	38,338
Add (deduct):				
Changes in non-cash working capital	**(15,467)**	15,851	**5,674**	33,535
Interest paid	**555**	250	**2,061**	841
Income taxes paid (received)	**6,325**	(3)	**14,859**	(232)
Funds from operations	**28,167**	25,068	**119,317**	72,482

b) Excess Cash Flow

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**36,754**	8,970	**96,723**	38,338
Add (deduct):				
Changes in non-cash working capital	**(15,467)**	15,851	**5,674**	33,535
Interest paid	**555**	250	**2,061**	841
Income taxes paid (received)	**6,325**	(3)	**14,859**	(232)
Cash payment on leases	**(1,343)**	(1,330)	**(5,258)**	(5,303)
	26,824	23,738	**114,059**	67,179
Proceeds on disposition of drilling equipment	**10,997**	12,005	**43,686**	27,459
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**(8,448)**	(6,222)	**(30,550)**	(25,068)
Net proceeds	**2,549**	5,783	**13,136**	2,391
Growth capital expenditures	**(7,026)**	(15,252)	**(34,382)**	(48,457)
Excess cash flow	**22,347**	14,269	**92,813**	21,113

c) <u>Working Capital</u>

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

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

(Stated in thousands of dollars)

		December 31,
	2023	2022
Current assets	**207,040**	210,227
Deduct:		
Current liabilities	**(113,125)**	(115,888)
Working capital	**93,915**	94,339

d) Net Debt (Net Cash)

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

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

(Stated in thousands of dollars)

	December 31,	
	2023	2022
Loans and borrowings	**7,564**	22,731
Deduct:		
Cash and cash equivalents	**(16,433)**	(18,247)
Net debt (Net cash)	**(8,869)**	4,484

e) Net Capital Expenditures

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Growth capital expenditures	**7,026**	15,252	**34,382**	48,457
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**8,448**	6,222	**30,550**	25,068
Total capital expenditures	**15,474**	21,474	**64,932**	73,525
Deduct:				
Proceeds on disposition of drilling equipment	**(10,997)**	(12,005)	**(43,686)**	(27,459)
Net capital expenditures	**4,477**	9,469	**21,246**	46,066

f) Remaining Distributable Balance under ROCS

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

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

(Stated in thousands of dollars)

	Year ended December 31, 2023
Excess cash flow	**92,813**
70% of excess cash flow	**64,969**
Deduct:	
Repurchase of shares under the NCIB	**(30,366)**
Dividends paid to shareholders	**(30,189)**
Remaining Distributable Balance under ROCS	**4,414**

Supplementary Financial Measures

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

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

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

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

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

"Funds from operations per share – diluted" is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of funds from operations per share - diluted is based on the funds from operations as reported in the table above divided by the diluted number of shares outstanding as quantified in Note 10(b) in the Notes to the Consolidated Financial Statements.

Definitions

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

"Capital expenditures" equate to the Corporation's total acquisition of drilling and other equipment as stated on the Consolidated Statements of Cash Flows and Note 5(b) in the Notes to the Financial Statements.

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

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