



PHX

ENERGY SERVICES CORP.

2025

Third Quarter Report

Management's Discussion and Analysis

Third Quarter Report for the three and nine-month periods ended September 30, 2025 and 2024

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 2025 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 2025 third quarter report, and the Corporation's 2024 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 2024 annual report. Readers can also obtain additional information on the Corporation including its most recently filed Annual Information Circular and Annual Information Form ("AIF") on SEDAR+ at www.sedarplus.ca. This MD&A has been prepared taking into consideration information available up to and including November 4, 2025.

PHX Energy's Interim Financial Report for the three and nine-month periods ended September 30, 2025 and 2024 have been prepared in accordance with IAS 34 Interim Financial Reporting. The MD&A and Interim Financial Report were reviewed by PHX Energy's Audit Committee and approved by PHX Energy's Board of Directors (the "Board") on November 4, 2025.

This MD&A contains Forward-Looking Information and Non-GAAP and Other Financial Measures, including Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures. Please refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for applicable definitions and reconciliations. Please refer to the "Cautionary Statement Regarding Forward-Looking Information and Statements" section of this MD&A.

Industry data cited throughout this MD&A is sourced from Baker Hughes North American rig counts (<https://rigcount.bakerhughes.com/na-rig-count>) and custom reports from Geologic Systems for Canadian industry operating days.

Third Quarter Highlights

- For the three-month period ended September 30, 2025, PHX Energy generated consolidated revenue of \$164.3 million, which is 2 percent higher than the \$160.6 million generated in the third quarter of 2024. Consolidated revenue in the 2025-quarter included \$11.9 million of motor rental revenue and \$0.3 million of revenue generated from the sale of motor equipment and parts (2024 - \$10.2 million and \$2 million, respectively).
- In the third quarter of 2025, adjusted EBITDA⁽¹⁾ was \$27.9 million, 17 percent of consolidated revenue⁽¹⁾, a decrease of 4 percent from the \$29 million, 18 percent of consolidated revenue, in the same 2024-quarter. In 2025, equipment parts and repair services costs have increased overall partly due to PHX Energy owning a more diverse fleet of Rotary Steerable Systems ("RSS") compared to prior periods. Lower profitability was also attributable to the decrease in the Corporation's high-margin revenue streams particularly RSS activity and motor equipment and parts sales.
- Earnings in the 2025 three-month period were \$8.5 million, \$0.16 per share, as compared to \$10.2 million, \$0.22 per share, in the same 2024-period. Earnings in the 2025-period included depreciation and amortization expenses on drilling and other equipment of \$16.3 million (pre-tax) which is a 42 percent increase when compared to the \$11.5 million (pre-tax) in the corresponding 2024-quarter. This increase is the result of ongoing fixed asset additions as

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well as \$3 million in additional depreciation relating to a change in the estimated useful life of certain primary components of motors.

- In the 2025-quarter, PHX Energy's US division's revenue was \$120.2 million, 3 percent higher than the \$117 million generated in the third quarter of 2024. In comparison, the average number of active horizontal and directional rigs per day in the US industry declined by 7 percent quarter-over-quarter. US division revenue in both the 2025 and 2024 quarters represented 73 percent of consolidated revenue.
- PHX Energy's Canadian division reported \$44.1 million of quarterly revenue, flat compared to \$43.7 million in the 2024-quarter. In comparison, in the 2025 three-month period, Canadian industry drilling days declined by 12 percent compared to the same 2024-period.
- For the three-month period ended September 30, 2025, the Corporation generated excess cash flow⁽²⁾ of \$12.6 million, after deducting net capital expenditures⁽²⁾ of \$7.4 million (2024 - \$19.3 million and \$4.2 million, respectively).
- On September 15, 2025, the Corporation declared a dividend of \$0.20 per share or \$9 million, paid on October 15, 2025 to shareholders of record on September 30, 2025.
- During the third quarter of 2025, 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 4,035,757 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 5, 2025. The NCIB commenced on August 18, 2025 and will terminate on August 17, 2026. In the 2025 three-month period, 279,000 common shares were purchased by the Corporation and cancelled for \$2.3 million under the previous Normal Course Issuer Bid. No common shares have been purchased under the current NCIB.
- In September 2025, the Corporation increased the borrowing amounts in the syndicated facility from CAD \$80 million to CAD \$95 million and in the US operating facility from USD \$20 million to USD \$25 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2028. With the increased borrowing amounts, the Corporation has approximately CAD \$67 million and USD \$25 million available to be drawn from its credit facilities. This increase is intended to provide PHX Energy flexibility to take advantage of lucrative opportunities when presented in the future.
- As at September 30, 2025, the Corporation had a working capital⁽²⁾ of \$102.2 million and net debt⁽²⁾ of \$34.5 million.

⁽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 MD&A.

Financial Highlights

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

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2025	2024	% Change	2025	2024	% Change
Operating Results						
Revenue	164,333	160,634	2	525,707	480,987	9
Earnings	8,461	10,160	(17)	37,143	40,527	(8)
Earnings per share – diluted	0.16	0.22	(27)	0.78	0.86	(9)
Adjusted EBITDA ⁽¹⁾	27,903	29,018	(4)	95,945	94,100	2
Adjusted EBITDA per share – diluted ⁽¹⁾	0.61	0.60	2	2.07	1.93	7
Adjusted EBITDA as a percentage of revenue ⁽¹⁾	17%	18%		18%	20%	
Cash Flow						
Cash flows from operating activities	20,065	28,740	(30)	41,475	79,225	(48)
Funds from operations ⁽²⁾	21,341	24,941	(14)	75,297	75,395	-
Funds from operations per share – diluted ⁽³⁾	0.46	0.52	(12)	1.62	1.55	5
Dividends paid per share ⁽³⁾	0.20	0.20	-	0.60	0.60	-
Dividends paid	9,092	9,437	(4)	27,306	28,388	(4)
Capital expenditures ⁽³⁾	16,525	11,143	48	62,812	67,563	(7)
Excess cash flow ⁽²⁾	12,554	19,334	(35)	39,192	30,311	29
Financial Position				Sept 30 '25	Dec 31 '24	
Working capital ⁽²⁾				102,232	84,545	21
Net debt ⁽²⁾				34,535	2,664	n.m.
Shareholders' equity				223,170	222,205	-
Common shares outstanding				45,177,773	45,506,773	(1)

n.m. – not meaningful

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Non-GAAP and Other Financial Measures

Throughout this MD&A, PHX Energy uses certain measures to analyze financial performance, financial position, and cash flow. These Non-GAAP and Other Specified Financial Measures do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP") and include Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures (collectively referred to as "Non-GAAP and Other Financial Measures"). These Non-GAAP and Other Specified Financial Measures include, but are not limited to, adjusted EBITDA, adjusted EBITDA per share, adjusted EBITDA excluding cash-settled share-based compensation expense, adjusted EBITDA as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, funds from operations, funds from operations per share, excess cash flow, net capital expenditures, net debt (net cash), working capital, and remaining distributable balance under ROCS. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and 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 MD&A for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Outlook

Through the weaker industry environment that has persisted in 2025, our superior customer service and our industry leading drilling technology have created some resilience amidst the lower rig counts. In the final quarter of 2025, we expect to continue this trend in activity and revenue relative to the market conditions. However, we anticipate that the global instability and higher cost environment, including factors such as lower oil prices and implementation of tariffs, may further weaken profitability in future quarters.

The Board has approved a preliminary 2026 capital expenditure budget of \$60 million, which the growth portion is anticipated to be directed toward continuing to expand our high margin technologies, including RSS and supporting greater activity in the Atlas rental division. However, with the current industry outlook being downgraded, we will be cautious when committing to further 2026 expenditures as the year progresses. Therefore the 2026 capital expenditures may be lower than anticipated.

RSS remains the key driver for our success and at the forefront of our strategy and capital investment priorities. We recently had our first successful RSS run in the 7 7/8 hole size, which is an application that Operators in the Permian are focused on to further drive drilling efficiency. We foresee demand for technology that is suited to this hole size to continue to grow and we anticipate adding more RSS to our fleet to meet this demand. We already have a dominant position in the Permian basin, which is the largest basin in North America, and believe we have a competitive advantage in this growing segment of the market.

With the progress of LNG projects in both Canada and the US, the natural gas directed rig activity is a market where we expect to see the rig counts increase. We believe there could be future opportunities to expand into these gas markets, such as the Haynesville and Marcellus, and anticipate dedicating resources towards technology development and marketing that will allow us to break into these markets.

Another area we see providing resilience to the weaker industry conditions that could persist in 2026 is our high margin Atlas rental business. We have expanded the Atlas team, and the additional operations and marketing supports along with the reputation of our motor technology we believe this division will continue to grow in 2026.

We possess a technology fleet that is successfully creating faster and more efficient drilling operations for our clients and has set us apart as a top tier directional provider. It is this operational strength that we can leverage in more challenging cycles to maintain a strong financial position, and sustain the high level of shareholder rewards under our ROCS, including our quarterly dividend. Since reinstating our dividend in December 2020, the Corporation has paid \$116.5 million in dividends to shareholders. Additionally, from the second quarter of 2017 to present a total of 16.6 million common shares have been purchased and cancelled under PHX Energy's various NCIB's. This represents 28 percent of common shares outstanding as of June 30, 2017.

Michael Buker, President & CEO

November 4, 2025

About PHX Energy Services Corp.

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

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

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

Financial Results

Despite softer industry drilling activity in both the US and Canada quarter-over-quarter, for the three-month period ended September 30, 2025, PHX Energy generated consolidated revenue of \$164.3 million which is 2 percent higher than the \$160.6 million generated in the same period of 2024.

In the third quarter of 2025, the Corporation's US division's revenue grew by 3 percent to \$120.2 million compared to \$117 million in the same 2024-quarter. PHX Energy's US operating days⁽³⁾ saw an increase of 9 percent to 4,286 days in the 2025 three-month period from 3,916 in the same 2024-period while the US industry's rig count declined by 7 percent quarter-over-quarter. For the three-month period ended September 30, 2025, RSS activity represented 20 percent of the division's operating days, down from 24 percent in the same 2024-period. The US division's average revenue per day⁽³⁾ for directional drilling services decreased by 6 percent quarter-over-quarter. The decrease is mainly attributable to the lower percentage of RSS days relative to total operating days⁽³⁾. In the 2025 three-month period, the Corporation's US motor rental division's revenue grew by 16 percent to \$11.4 million from \$9.8 million in the same 2024-period and the US division generated \$0.3 million of revenue from motor equipment and parts sold (2024 - \$2 million). Revenue from the Corporation's US division in both the 2025 and 2024 quarters represented 73 percent of consolidated revenue.

For the three-month period ended September 30, 2025, the Corporation's Canadian segment generated revenue of \$44.1 million, relatively flat compared to \$43.7 million in the same 2024-period. The Canadian division recorded 3,128 operating days in the 2025-quarter, a 5 percent decrease from the 3,302 operating days realized in the comparable 2024-quarter. In comparison, the Canadian industry drilling activity decreased by 12 percent quarter-over-quarter. In the third quarter of 2025, RSS activity represented 4 percent of the Canadian segment's operating days, up from 3 percent in the same 2024-quarter. Average revenue per day⁽³⁾ for directional drilling services realized by the Canadian division improved by 6 percent to \$13,932 in the 2025-quarter, as compared to \$13,091 in the corresponding 2024-quarter. The improvement was largely driven by the Canadian division's clients' higher utilization of the Corporation's premium technologies, including RSS. PHX Energy's Canadian motor rental division generated \$0.5 million of revenue in the 2025-period (2024 - \$0.4 million).

In the 2025 three-month period, earnings were \$8.5 million (2024 - \$10.2 million), adjusted EBITDA⁽¹⁾ was \$27.9 million (2024 - \$29 million), and adjusted EBITDA as a percentage of consolidated revenue⁽¹⁾ was 17 percent (2024 - 18 percent). Earnings in the 2025-period included depreciation and amortization expenses on drilling and other equipment of \$16.3 million (pre-tax) which increased by 42 percent as compared to \$11.5 million (pre-tax) in the corresponding 2024-quarter. This increase is the result of ongoing fixed asset additions as well as \$3 million in additional depreciation relating to a change in the estimated

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useful life of certain primary components of motors. Profitability in the 2025 three-month period was negatively affected by an overall increase in equipment parts and repair services costs that were driven by several factors including inflation, additional tariffs implemented late in the first quarter of 2025, and more aggressive drilling practices from operators. Additionally, with PHX Energy owning a more diverse RSS fleet compared to prior periods, the related servicing costs have also increased.

In September 2025, the Corporation increased the borrowing amounts in the syndicated facility from CAD \$80 million to CAD \$95 million and in the US operating facility from USD \$20 million to USD \$25 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2028. With the increased borrowing amounts, the Corporation has approximately CAD \$67 million and USD \$25 million available to be drawn from its credit facilities.

As at September 30, 2025, the Corporation had working capital⁽²⁾ of \$102.2 million and net debt⁽²⁾ of \$34.5 million.

Dividends and ROCS

On September 15, 2025, the Corporation declared a dividend of \$0.20 per share payable to shareholders of record on September 30, 2025. An aggregate of \$9 million was paid on October 15, 2025.

The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") which targets up to 70 percent of annual excess cash flow⁽²⁾ to be used for shareholder returns and includes multiple options including the dividend program and the NCIB. For the three-month period ended September 30, 2025, excess cash flow decreased primarily due to lower cash flows from operating activities and higher net capital expenditures⁽²⁾. The Corporation continued to prioritize shareholder returns while protecting its financial position and in the third quarter, maintained its current level of dividends, paying \$9 million in dividends to shareholders, and repurchased and cancelled 279,000 common shares for \$2.3 million under the previous NCIB. During the first three quarters of 2025 more than 70 percent of the excess cash flow was distributed for shareholder returns under ROCS. Net capital expenditures to be spent for the remainder of the year are anticipated to be lower than previous quarters and this would allow for sufficient level of excess cash flows to be used for shareholder returns and stay within the 70 percent threshold for the rest of the 2025-year.

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(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Excess cash flow ⁽²⁾	12,554	19,334	39,192	30,311
70% of excess cash flow	8,788	13,534	27,434	21,218
Deduct:				
Dividends paid to shareholders	(9,092)	(9,437)	(27,306)	(28,388)
Repurchase of shares under the NCIB	(2,339)	(12,612)	(3,250)	(15,756)
Remaining distributable balance under ROCS ⁽²⁾	(2,643)	(8,515)	(3,122)	(22,926)

Normal Course Issuer Bid

During the third quarter of 2025, the TSX approved the renewal of PHX Energy's Normal Course Issuer Bid to purchase for cancellation, from time-to-time, up to a maximum of 4,035,757 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 5, 2025. The NCIB commenced on August 18, 2025 and will terminate on August 17, 2026. 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 NCIB, 379,000 common shares were purchased by the Corporation and cancelled for \$3.3 million in the nine-month period ended September 30, 2025. (2024 – 1,648,232 common shares were purchased and cancelled for \$15.8 million). No common shares have been purchased under the current NCIB.

Capital Spending

For the three-month period ended September 30, 2025, the Corporation spent \$16.5 million in capital expenditures, of which \$13.8 million was spent on growing the Corporation's fleet of drilling equipment, \$1.4 million was spent to replace retired assets, and \$1.4 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of \$9.1 million, the Corporation's net capital expenditures⁽²⁾ for the 2025-period were \$7.4 million. Capital expenditures in the 2025-quarter were primarily directed towards Velocity Real-Time systems ("Velocity"), Atlas High Performance motors ("Atlas"), and RSS, both PowerDrive Orbit and iCruise. PHX Energy funded capital spending primarily using proceeds on disposition of drilling equipment, cash flows from operating activities, and its credit facilities when required.

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(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Growth capital expenditures	13,760	11,061	42,597	59,798
Maintenance capital expenditures from asset retirements	1,402	82	15,602	6,252
Maintenance capital expenditures to replace downhole equipment losses	1,363	-	4,613	1,513
Total capital expenditures	16,525	11,143	62,812	67,563
Deduct:				
Proceeds on disposition of drilling equipment	(9,127)	(6,973)	(30,932)	(26,683)
Net capital expenditures	7,398	4,170	31,880	40,880

As at September 30, 2025, the Corporation had capital commitments to purchase drilling and other equipment for \$13.9 million, \$9.3 million of which is growth capital allocated as follows: \$5.3 million for performance drilling motors, \$1.2 million for Velocity systems, \$0.9 million for RSS systems, and \$1.9 million for other equipment. Equipment on order is largely expected to be delivered within the first quarter of 2026.

The expected capital expenditure budget for the 2025-year, excluding proceeds on disposition of drilling equipment, is \$65 million. Of the total expenditures, \$47 million is anticipated to be spent on growth and the remainder is anticipated to be spent to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations.

For 2026, the expected preliminary capital expenditure program is \$60 million, of which approximately half is anticipated to be spent on growth. The Corporation believes that its current fleet of MWD systems and motors will support its forecasted 2026-activity and the 2026 growth capital expenditures are expected to be mainly focused on further expanding the RSS fleets and Atlas motor rental fleets. The remaining half is anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations. Of the 2026 expected capital expenditures, approximately half has been committed and anticipated to be delivered within the first quarter of 2026. The remainder will be reviewed and adjusted relative to market and industry conditions.

The Corporation currently possesses approximately 914 Atlas motors, comprised of various configurations including its 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", 9.00", and 12.00", and 130 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 104 RSS tools and was the first of a few competitors to have a fleet comprised of both the PowerDrive Orbit and iCruise systems.

Results of Operations

Three and Nine-Month periods ended September 30, 2025

Revenue

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2025	2024	% Change	2025	2024	% Change
Directional drilling services	152,109	148,460	2	485,371	446,602	9
Motor rental	11,926	10,212	17	36,433	28,470	28
Sale of motor equipment and parts	298	1,962	(85)	3,903	5,915	(34)
Total revenue	164,333	160,634	2	525,707	480,987	9

For the three-month period ended September 30, 2025, PHX Energy generated consolidated revenue of \$164.3 million, which is 2 percent higher than the \$160.6 million generated in the third quarter of 2024. For the nine-month period ended September 30, 2025, the Corporation generated consolidated revenue of \$525.7 million, a 9 percent increase as compared to the same 2024-period which generated consolidated revenue of \$481 million.

In the third quarter of 2025, softer industry conditions continued with commodity prices trending lower and the US industry rig count continuing to decline. The US rig count averaged 513 horizontal and directional rigs operating per day in the third quarter, which is 6 percent lower than the daily average of 544 in the second quarter of 2025 and 7 percent lower compared to the same quarter in 2024. In Canada, industry horizontal and directional drilling activity (as measured by drilling days) was 15,270 days in the 2025-quarter, a 12 percent decrease from 17,398 days in the same 2024-quarter. In comparison, the Corporation's consolidated operating days increased by 3 percent to 7,413 days in the 2025-quarter as compared to 7,218 days in the 2024-quarter. For the nine-month period ended September 30, 2025, consolidated operating days increased by 4 percent to 22,861 from 22,070 days in the corresponding 2024-period. In both 2025-periods, PHX Energy's consolidated activity remained resilient to the impacts of the weaker industry environment through the continued strong demand for the Corporation's premium technology offerings and expertise in providing services.

In the three-month period of 2025, average consolidated revenue per day⁽³⁾ for directional drilling services stayed flat at \$20,519 (2024 – \$20,572) while in the 2025 nine-month period, it improved by 5 percent to \$21,232 (2024 - \$20,237). The improvement

in the 2025 nine-month period was largely driven by customers' increased utilization of PHX Energy's premium technologies, particularly, RSS and the Corporation's proprietary Real Time RSS Communications technologies.

In the 2025 three and nine-month periods, revenue generated by PHX Energy's Atlas motor rental division increased by 17 percent to \$11.9 million (2024 - \$10.2 million) and 28 percent to \$36.4 million (2024 - \$28.5 million), respectively. Throughout the first three quarters of 2025, the Corporation's US motor rental division successfully grew its client base through increased marketing efforts and additional resources dedicated to support the division.

For the three and nine-month periods ended September 30, 2025, revenue of \$0.3 million and \$3.9 million, respectively, was generated from the sale of motor equipment and parts (2024 - \$2 million and \$5.9 million, respectively). Due to the intermittent and cyclical nature of the customers' ordering frequency, it is expected that revenue from this line of business will fluctuate between periods.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2025	2024	% Change	2025	2024	% Change
Direct costs	146,637	131,666	11	443,496	387,166	15
Depreciation & amortization drilling and other equipment (included in direct costs)	16,346	11,516	42	41,528	32,977	26
Depreciation & amortization right-of-use asset (included in direct costs)	862	1,214	(29)	2,613	2,920	(11)
Gross profit as a percentage of revenue excluding depreciation & amortization ⁽¹⁾	21%	26%		24%	27%	

Direct costs are comprised of field and shop expenses, costs of motors and parts sold, and include depreciation and amortization of the Corporation's equipment and right-of-use assets. For the three-month period ended September 30, 2025, direct costs increased by 11 percent to \$146.6 million from \$131.7 million in the same 2024-period. For the nine-month period ended September 30, 2025, direct costs increased 15 percent to \$443.5 million from \$387.2 million in the same 2024-period.

In the 2025 three and nine-month periods, the Corporation's depreciation and amortization on drilling and other equipment increased by 42 percent and 26 percent, respectively, mainly as result of ongoing fixed asset additions as well as \$3 million in additional depreciation recorded in the 2025-quarter relating to a change in the estimated useful life of certain primary

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components of motors. Apart from depreciation and amortization expenses on drilling and other equipment, higher direct costs in both periods primarily resulted from greater equipment repair expenses. Throughout the first three quarters of 2025, the costs of equipment parts and services have increased overall and were impacted by several factors including inflation, additional tariffs implemented late in the first quarter of 2025, and equipment being subject to more aggressive drilling practices from operators. Additionally, with PHX Energy owning a more diverse RSS fleet, the related servicing costs have also increased.

For the three and nine-month periods ended September 30, 2025, gross profit as a percentage of revenue excluding depreciation and amortization⁽¹⁾ declined to 21 percent and 24 percent respectively, compared to 26 percent and 27 percent in the corresponding 2024-periods. Rising equipment servicing costs largely contributed to the decline in profitability in both 2025-periods. In the 2025 three-month period, lower profitability was also partly attributable to the decrease in the Corporation's high-margin revenue streams particularly RSS activity and motor equipment and parts sales. In both 2025-periods, equipment rentals decreased and this helped partially shelter the Corporation's margins from the negative impacts of rising equipment servicing costs. Reduced equipment rentals were the result of increased capacity in PHX Energy's RSS fleet including its Real Time Communication technologies, and successful efforts in arranging pricing concessions with equipment rental vendors.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2025	2024	% Change	2025	2024	% Change
Selling, general and administrative ("SG&A") costs	12,661	15,885	(20)	48,476	50,726	(4)
Cash-settled share-based compensation (included in SG&A costs)	772	2,471	(69)	4,621	9,584	(52)
Equity-settled share-based compensation (included in SG&A costs)	117	140	(16)	357	422	(15)
SG&A costs excluding share-based compensation as a percentage of revenue ⁽¹⁾	7%	8%		8%	8%	

For the three-month period ended September 30, 2025, SG&A costs were \$12.7 million, a 20 percent decrease as compared to \$15.9 million in the corresponding 2024-period. For the nine-month period ended September 30, 2025, SG&A costs were \$48.5 million, a 4 percent decrease as compared to \$50.7 million in the corresponding 2024-period. Lower SG&A costs in both 2025-periods were primarily due to decreases in cash-settled share-based compensation expense.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three-month period ended September 30, 2025, the related compensation expense recognized by PHX Energy was \$0.8 million (2024 - \$2.5 million). For the nine-month period ended September 30, 2025, the related compensation expense recognized by PHX Energy was \$4.6 million (2024 - \$9.6 million). Changes in cash-settled share-based compensation expense in the 2025-

⁽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 MD&A.

periods were mainly driven by fluctuations in the Corporation's share price, estimated payout multipliers, and the number of awards granted in the period. There were 1,501,286 retention awards outstanding as at September 30, 2025 (2024 – 1,587,459). SG&A costs excluding share-based compensation as a percentage of revenue⁽¹⁾ were generally flat period-over-period at 7 percent and 8 percent in the three and nine-month periods ended September 30, 2025, respectively (2024 – 8 percent in both periods).

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2025	2024	% Change	2025	2024	% Change
Research and development expense	1,743	1,392	25	5,131	4,004	28

For the three and nine-month periods ended September 30, 2025, PHX Energy spent \$1.7 million and \$5.1 million on research and development (“R&D”) expenditures, an increase of 25 and 28 percent as compared to \$1.4 million and \$4 million spent in the corresponding 2024-periods. Higher R&D expenditures in the 2025-periods are mainly attributable to rising personnel related costs and greater prototype and equipment parts expenses incurred to support key R&D projects during the period.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2025	2024	% Change	2025	2024	% Change
Finance expense	866	620	40	2,175	1,421	53
Finance expense lease liabilities	471	628	(25)	1,460	1,700	(14)

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three and nine-month periods ended September 30, 2025, finance expense increased to \$0.9 million and \$2.2 million, respectively (2024 - \$0.6 million and \$1.4 million). The increase in finance expenses in both 2025-periods was primarily due to higher drawings on the credit facilities in the periods.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three and nine-month periods ended September 30, 2025, finance expense lease liabilities declined to \$0.5 million and \$1.5 million, respectively (2024 - \$0.6 million and \$1.7 million) due to leases that expired in the 2025 nine-month period.

⁽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 MD&A.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Net gain on disposition of drilling equipment	6,668	4,340	22,180	18,627
Miscellaneous other income	617	-	618	-
Foreign exchange gains (losses)	458	164	42	(124)
Other income	7,743	4,504	22,840	18,503

For the three and nine-month periods ended September 30, 2025, the Corporation recognized other income of \$7.7 million and \$22.8 million, respectively (2024 - \$4.5 million and \$18.5 million, respectively). In both periods, other income was mainly comprised of net gain on disposition of drilling equipment. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life. In both 2025-periods, more instances of high dollar valued downhole equipment losses occurred as compared to the corresponding 2024-periods, resulting in higher levels of net gain on disposition of drilling equipment recognized.

In the 2025 three and nine-month periods, the miscellaneous other income of \$0.6 million pertains to sundry and occasional transactions, such as proceeds from the sale of scrapped metal and machining services for a third party.

Foreign exchange gains of \$0.5 million and \$42 thousand in the three and nine-month periods of 2025 (2024 – \$0.2 million and loss of \$0.1 million), were primarily due to the revaluation and settlement of CAD-denominated intercompany payables in the US.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Provision for income taxes	1,237	4,787	10,666	13,946
Effective tax rates ⁽³⁾	13%	32%	22%	26%

For the three and nine-month periods ended September 30, 2025, the Corporation reported a provision for income tax of \$1.2 million and \$10.7 million, respectively (2024 – \$4.8 million and \$13.9 million, respectively). In both the 2025 three and nine-month periods, PHX Energy's effective tax rate⁽³⁾ of 13 percent and 22 percent, respectively, are lower than the combined US federal and state corporate income tax rate of 24.5 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent mainly due to the recognition of previously unrecognized international deferred tax assets.

⁽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 MD&A.

Segmented Information

The Corporation reports two operating segments on a geographical basis throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US and throughout the Western Canadian Sedimentary Basin. Revenue generated through the Corporation's technology partnership and sales and lease agreement for the Middle East and North Africa ("MENA") regions are included in the US division's results.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2025	2024	% Change	2025	2024	% Change
Directional drilling services	108,538	105,232	3	346,179	313,864	10
Motor rental	11,393	9,789	16	34,368	27,344	26
Sale of motor equipment and parts	298	1,962	(85)	3,903	5,915	(34)
Total revenue	120,229	116,983	3	384,450	347,123	11
Direct costs	107,967	94,906	14	324,965	276,723	17
Gross profit	12,262	22,077	(44)	59,485	70,400	(16)
Expenses:						
Selling, general and administrative expenses	7,237	7,126	2	22,700	22,463	1
Research and development expenses	-	-	-	-	-	-
Finance expense	-	-	-	-	-	-
Finance expense lease liability	169	312	(46)	543	743	(27)
Other income	(6,416)	(2,666)	141	(18,154)	(13,738)	32
Reportable segment profit before income taxes	11,272	17,305	(35)	54,396	60,932	(11)

For the three and nine-month periods ended September 30, 2025, PHX Energy's US division generated revenue of \$120.2 million and \$384.5 million, respectively, an increase of 3 and 11 percent as compared to \$117 million and \$347.1 million in the corresponding 2024-periods.

Throughout the first three quarters of 2025, the Corporation's US operations have been resilient to the slower industry environment in the US. This was achieved through increased capacity in PHX Energy's premium technology fleet and steady market share growth. For the three-month period ended September 30, 2025, US operating days⁽³⁾ were 4,286, a 9 percent increase compared to 3,916 days in the 2024-quarter. In comparison, in the third quarter of 2025, the average number of active

⁽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 MD&A.

horizontal and directional rigs per day in the US industry declined by 7 percent to 513 compared to an average of 551 rigs per day in the 2024-quarter. The US division's RSS activity represented 20 percent of its operating days, a decline compared to 24 percent in the 2024-quarter. RSS technology is typically deployed in the lateral section of a well. In the 2025-quarter, the wells the Corporation was providing services to were at stages where they were drilling sections that didn't require this technology. For the nine-month period ended September 30, 2025, US operating days⁽³⁾ were 13,320, a 9 percent increase compared to 12,229 days in the corresponding 2024-period. In comparison, the average number of active horizontal and directional rigs per day in the US industry declined by 5 percent period-over-period. RSS activity was 22 percent of operating days in the first three quarters of 2025, a slight increase compared to 21 percent in the same 2024-period.

Horizontal and directional drilling continued to represent the majority of rigs running on a daily basis during the third quarter of 2025. During the 2025-quarter, Phoenix USA was active in the Permian, Eagleford, Scoop/Stack, Uinta, Fayetteville, and Marcellus basins. Additionally, Phoenix USA was involved with gas storage projects in Louisiana and Texas.

For the three-month period ended September 30, 2025, the US division's average revenue per day⁽³⁾ for directional drilling services decreased by 6 percent to \$25,327 (2024 - \$26,876). Omitting the impact of foreign exchange, the average revenue per day for directional drilling services also decreased by 6 percent in the 2025-quarter. This decrease was mainly due to the decline in the proportion of RSS operating days as a percentage of total days, as well as the pricing pressures that resulted from weaker industry conditions. For the nine-month period ended September 30, 2025, the US division's average revenue per day was relatively flat at \$25,989 as compared to \$25,667 in the corresponding 2024-period. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services marginally decreased by 1 percent.

For the three and nine-month periods ended September 30, 2025, US motor rental revenue increased by 16 and 26 percent, respectively, to \$11.4 million and \$34.4 million (2024 - \$9.8 million and \$27.3 million). Throughout the first three quarters of 2025, with added resources dedicated to this line of business, the Corporation's US motor rental division was successful in further penetrating the motor rental market and continued to grow its client base.

In the three and nine-month periods of 2025, PHX Energy's US operations generated \$0.3 million and \$3.9 million of revenue from the sale of motors and parts compared to \$2 million and \$5.9 million in the corresponding 2024-periods. Due to the sporadic and cyclical nature of the customers' ordering frequency, it is expected that revenue from this line of business will fluctuate between periods.

For the three and nine-month periods ended September 30, 2025, the US segment's reportable segment income before tax decreased by 35 percent to \$11.3 million and by 11 percent to \$54.4 million, respectively (2024 - \$17.3 million and \$60.9 million, respectively). In both 2025 three and nine-month periods, the gains in revenue, mainly driven by increased operating days, were offset by higher direct costs that mainly resulted from rising costs of equipment parts and repair services. Additionally, lower gross profit margin in the 2025-quarter was partly attributable to the decline in the US division's high-margin

revenue streams, particularly RSS activity and motor equipment and parts sales. Higher other income generated from downhole equipment losses did somewhat lessen the decrease in gross profit margins in both 2025-periods.

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2025	2024	% Change	2025	2024	% Change
Directional drilling services	43,571	43,228	1	139,192	132,738	5
Motor rental	533	423	26	2,065	1,126	83
Total revenue	44,104	43,651	1	141,257	133,864	6
Direct costs	38,670	36,760	5	118,531	110,443	7
Gross profit	5,434	6,891	(21)	22,726	23,421	(3)
Expenses:						
Selling, general and administrative expenses	3,265	3,823	(15)	11,051	11,299	(2)
Research and development expenses	-	-	-	-	-	-
Finance expense	-	-	-	-	-	-
Finance expense lease liability	283	297	(5)	859	899	(4)
Other income	(1,327)	(1,838)	(28)	(4,686)	(4,765)	(2)
Reportable segment profit before income taxes	3,213	4,609	(30)	15,502	15,988	(3)

For the three and nine-month periods ended September 30, 2025, PHX Energy's Canadian operations generated revenue of \$44.1 million and \$141.3 million, respectively, an increase of 1 and 6 percent as compared to \$43.7 million and \$133.9 million in the corresponding 2024-periods.

In the 2025 three-month period, PHX Energy's Canadian operating days decreased by 5 percent to 3,128 days from 3,302 days in the same 2024-quarter and its RSS operating days accounted for 4 percent of its activity in the 2025-period (2024 - 3 percent). In comparison, industry horizontal and directional drilling activity, as measured by drilling days, declined by 12 percent to 15,270 in the third quarter of 2025 from 17,398 in the 2024-quarter. During the 2025-quarter, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Ellerslie, Charlie Lake, Cummings, Sparky, and Scallion basins.

In the 2025 nine-month period, PHX Energy's Canadian segment's operating days⁽³⁾ decreased slightly by 3 percent to 9,541 days from 9,842 days in the same 2024-period and its RSS operating days accounted for 7 percent of its activity in the 2025-period (2024 - 4 percent). In comparison, industry horizontal and directional drilling activity, as measured by drilling days, decreased by 6 percent to 43,535 in the first three quarters of 2025 from 46,261 in the same 2024-period.

The Canadian division's average revenue per day⁽³⁾ for directional drilling services increased by 6 and 8 percent in the three and nine-month periods ended September 30, 2025, to \$13,932 and \$14,590, respectively, as compared to \$13,091 and \$13,488 in the corresponding 2024-periods. The improvements were largely driven by the higher client demand for the Corporation's premium technologies, including RSS.

For the three and nine-month periods ended September 30, 2025, the Canadian segment's reportable segment income before tax decreased by 30 percent to \$3.2 million and by 3 percent to \$15.5 million, respectively (2024 - \$4.6 million and \$16 million, respectively). In both 2025-periods, the decline in profitability was mainly attributable to higher direct costs and fewer instances of downhole equipment losses that resulted in lower other income.

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Cash flows from operating activities	20,065	28,740	41,475	79,225
Funds from operations ⁽²⁾	21,341	24,941	75,297	75,395
			Sept. 30, '25	Dec. 31, '24
Working capital ⁽²⁾			102,232	84,545
Net debt ⁽²⁾			34,535	2,664

For the three and nine-month periods ended September 30, 2025, cash flow from operating activities decreased to \$20.1 million and \$41.5 million, respectively (2024 - \$28.7 million and \$79.2 million). Lower levels of earnings and the change in non-cash working capital impacted cash flows from operating activities negatively in both 2025-periods. In the 2025 nine-month period, the decrease in cash flows from operations was also largely due to significantly higher income taxes paid.

⁽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 MD&A.

⁽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 MD&A.

For the three-month period ended September 30, 2025, funds from operations⁽²⁾ were \$21.3 million, as compared to \$24.9 million in the comparable 2024-period. The decrease in funds from operations primarily resulted from lower earnings in the 2025 three-month period. For the nine-month period ended September 30, 2025, funds from operations was flat at \$75.3 million compared to \$75.4 million in the same 2024-period.

As at September 30, 2025, the Corporation had working capital⁽²⁾ of \$102.2 million, an increase of \$17.7 million from the \$84.5 million reported at December 31, 2024. The increase in working capital at September 30, 2025 was primarily due to the higher levels of trade and other receivables and lower levels of trade and other payables at the end of the 2025-period. Net debt⁽²⁾ as at September 30, 2025 was \$34.5 million as compared to \$2.7 million at the end of 2024. The increase in net debt was due to higher levels of drawings that were used to fund acquisitions of drilling and other equipment in the first three quarters of 2025.

Cash Flow, Dividends, and ROCS

In December 2020, PHX Energy reinstated its quarterly dividend program. In November 2022, PHX Energy's Board approved a refinement of its shareholder return strategy in the form of ROCS which targets up to 70 percent of annual excess cash flow⁽²⁾ to be used for shareholder returns, including the base dividend program, share buy backs and potential special dividends. The Board will continually review the dividend program and its ROCS and take into consideration, without limitation, the Corporation's financial performance, forecasted activity levels and the industry outlook, among other factors. 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 operating activities, among other considerations, and if the Corporation does not meet its budgeted cash flow from operating activities, dividends to shareholders may be reduced or suspended entirely.

For the three-month period ended September 30, 2025, dividend payments of \$9.1 million were financed from the Corporation's cash flows from operating activities (2024 - \$9.4 million). On September 15, 2025, the Corporation declared a dividend of \$0.20 per common share payable to shareholders of record on September 30, 2025. An aggregate of \$9 million was paid on October 15, 2025.

During the third quarter of 2025, 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 4,035,757 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 5, 2025. The NCIB commenced on August 18, 2025 and will terminate on August 17, 2026. Purchases of common shares are to be made on the open market through the facilities of the

⁽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 MD&A.

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 NCIB, 379,000 common shares were purchased by the Corporation and cancelled for \$3.3 million in the nine-month period ended September 30, 2025. (2024 – 1,648,232 common shares were purchased and cancelled for \$15.8 million). No common shares have been purchased under the current NCIB.

Investing Activities

Net cash used in investing activities for the three-month period ended September 30, 2025 was \$12.1 million as compared to \$14.9 million in the corresponding 2024-period. During the third quarter of 2025, the Corporation spent \$13.8 million (2024 - \$11.1 million) to grow the Corporation's fleet of drilling equipment, \$1.4 million (2024 - \$0.1 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment, and \$1.4 million (2024 - nil) was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of \$9.1 million (2024 - \$7 million), the Corporation's net capital expenditures for the 2025-period were \$7.4 million (2024 - \$4.2 million).

The 2025-quarter capital expenditures comprised of:

- \$6.4 million in RSS;
- \$5.7 million in MWD systems and spare components;
- \$3.8 million in downhole performance drilling motors; and
- \$0.6 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 \$4.7 million (use of cash) for the three-month period ended September 30, 2025, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets (2024 - \$9.4 million).

Financing Activities

For the three-month period ended September 30, 2025, net cash used in financing activities was \$11.3 million as compared to \$13.3 million in the same 2024-period. In the 2025-quarter:

- dividends of \$9.1 million were paid to shareholders;
- 279,000 shares were purchased and cancelled under the NCIB for \$2.3 million;
- payments of \$0.9 million were made towards lease liabilities; and
- \$1.1 million net drawings were made from the Corporation's syndicated credit facility.

Capital Resources

As of September 30, 2025, the Corporation had CAD \$42.4 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of \$7.9 million. In September 2025, the Corporation increased the borrowing amounts in the syndicated facility from CAD \$80 million to CAD \$95 million and in the US operating facility from USD \$20 million to USD \$25 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2028. With the increased borrowing amounts, the Corporation had CAD \$67 million and USD \$25 million available from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2028.

As at September 30, 2025, the Corporation was in compliance with all its financial covenants. Under the syndicated credit agreement, in any given period, the Corporation's distributions (as defined therein) cannot exceed its maximum aggregate amount of distributions limit as defined in the Corporation's syndicated credit agreement. Distributions include, without limitation, dividends declared and paid, cash used for common shares purchased by the independent trustee in the open market and held in trust for potential settlement of outstanding retention awards, as well as cash used for common shares repurchased and cancelled under the NCIB.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, proceeds on disposition of drilling equipment, debt and equity. The expected capital expenditure budget for the 2025-year is \$65 million. Of the total expenditures, \$47 million is anticipated to be spent on growth and the remainder 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 amount expected to be allocated towards replacing equipment lost downhole could increase, should more downhole equipment losses occur throughout the year.

For 2026, the expected preliminary capital expenditure program is \$60 million, of which approximately half is anticipated to be spent on growth. The Corporation believes that its current fleet of MWD systems and motors will support its forecasted 2026-activity and the 2026 growth capital expenditures are expected to be mainly focused on further expanding the RSS fleets and Atlas motor rental fleets. The remaining half is anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations. Of the 2026 expected capital expenditures, approximately half has been committed and anticipated to be delivered within the first quarter of 2026.

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, threat of trade wars, and financial market volatility persists in 2025 and 2026, 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, 2025, the Corporation has entered into commitments to purchase drilling and other equipment for \$13.9 million (2024 - \$12 million); equipment on order is largely expected to be delivered within the first quarter of 2026.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at September 30, 2025 and 2024.

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 condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Corporation's material accounting policies are described in its annual audited consolidated financial statements for the year ended December 31, 2024.

The preparation of the condensed consolidated interim financial statements in conformity with IFRS Accounting Standards as issued by the International Accounting Standards Board 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 estimates and 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, 2024.

Effective September 1, 2025, the Corporation updated the estimated useful life of certain primary components of its motors as a result of the annual review of its useful lives. Management determined that the useful life of this equipment should be updated from 8 years to 5 years. As at September 30, 2025, an additional \$3 million in depreciation expense was recorded to reflect this change.

Changes in Accounting Policies

The condensed consolidated interim financial statements have been prepared utilizing the same material accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2024.

Business Risk Factors

Business risk factors applicable to the Corporation can be found in the “*Business Risk Factors*” section of the MD&A in PHX Energy's 2024 Annual Report as well as in the Corporation's most recent Annual Information Form under the heading “*Risk Factors*”, which was filed under the Corporation's profile on SEDAR+ (www.sedarplus.ca).

Global Trade and Supply Chain Risks Update

Since coming into office in January this year, the US Administration has announced and implemented various tariffs against Canada and other nations, including China. The effective dates of some of these new tariffs have been implemented and some have been postponed. In response to the new US tariffs, the Canadian government as well as the governments of other nations have announced and/or implemented retaliatory tariffs. These new tariffs and any changes to these tariffs or imposition of any additional tariffs, taxes or import or export restrictions or prohibitions, could have material impacts on global economies, the Canadian and US oil and natural gas industries, interest and inflation rates, and the Corporation's supply chains. The resulting

higher levels of volatility and uncertainty could result in actual results being different from management's current estimates and those differences could be material.

The Corporation leverages certain market advantages and internal capabilities in its Canadian and US operations as part of its servicing, manufacturing and procurement processes that could be specifically impacted in an adverse manner. As a result, current and future tariffs, as well as the risk that tariffs imposed by the US on other countries including China has the potential to trigger an even broader global trade war, could have a material adverse impact on oil and gas industry activity levels in general, as well as a direct impact on the Corporation's own cost structure and supply chain.

The Corporation's supply chain and procurement team has been proactively tracking tariff developments and implementing strategies to reduce their potential impact. These strategies include, but are not limited to, negotiating with existing suppliers, diversifying both domestic and international supply sources, and accelerating cross-border shipments of equipment and inventory needed for US operations ahead of tariff implementation dates. While the Corporation believes these measures will help lessen the effects of tariffs, prolonged enforcement of significant tariffs could still have a material impact on its operations and financial results.

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.sedarplus.ca.

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 from July 1, 2025 to September 30, 2025 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

	As at November 4, 2025
Common shares outstanding, excluding shares held in trust	45,177,771
Common shares held in trust ⁽ⁱ⁾	3,301
Total common shares outstanding	45,181,072
Dilutive securities:	
Options	1,131,667
Corporation shares – diluted	46,312,739

⁽ⁱ⁾ Common Shares held in trust by an independent trustee for the potential future settlement of retention awards granted to eligible participant's under the Corporation's Retention Award Plan

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Sep-25	Jun-25	Mar-25	Dec-24	Sep-24	Jun-24	Mar-24	Dec-23
Revenue	164,333	167,670	193,704	178,676	160,634	154,230	166,123	165,332
Earnings	8,461	8,522	20,159	14,098	10,160	12,913	17,454	33,134
Earnings per share - basic	0.19	0.19	0.44	0.31	0.22	0.27	0.37	0.69
Earnings per share - diluted	0.16	0.17	0.44	0.30	0.22	0.26	0.37	0.68
Dividends paid	9,092	9,112	9,102	9,183	9,437	9,498	9,453	7,277
Cash and cash equivalents	7,871	10,696	13,971	14,163	14,203	13,798	13,380	16,433
Loans and borrowings	42,406	41,739	26,145	16,827	19,171	9,649	7,547	7,564

Trends in revenue, earnings, and cash flows are directly affected by industry directional drilling activity levels that change as a result of world demand for natural gas and oil commodities and fluctuations in oil and natural gas prices. Due to the declining trend in oil prices, both US industry rig count and Canadian industry horizontal and directional drilling activity (as measured by drilling days) softened decreasing by 7 percent and 12 percent, respectively, compared to the same 2024-quarter. In the third quarter of 2025, despite the continued slower industry environment, both US and Canadian divisions reported revenue growth. PHX Energy's operations remained resilient to the impacts of the weaker industry environment through increased capacity in its premium technology fleet and continued strong demand for the Corporation's premium technology offerings and expertise in providing services. However, earnings in the 2025-quarter declined compared to the same 2024-quarter mainly due to additional depreciation recognized as a result of a change in the useful life of certain primary components of motors, overall higher direct costs, and decrease in the Corporation's high-margin revenue streams particularly RSS activity and motor equipment and parts sales.

In general, activity levels in western Canada vary considerably due to seasonal weather patterns. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring break-up" has a direct impact on the Corporation's Canadian activity levels. As a result, late March through May is typically the slowest time for activity in Canada, as such, the operating results of the Corporation vary on a quarterly basis. The Corporation's activity levels in the US are not impacted at the same level during this Canadian spring break-up period. US revenue represented 73 percent of consolidated revenue in the 2025 three-month period (2024 – 73 percent).

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) 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 earnings that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed and how it was taxed in various countries. Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative measure to earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

The following is a reconciliation of earnings to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Earnings:	8,461	10,160	37,143	40,527
Add:				
Depreciation and amortization drilling and other equipment	16,346	11,516	41,528	32,977
Depreciation and amortization right-of-use asset	862	1,214	2,613	2,920
Provision for income taxes	1,237	4,787	10,666	13,946
Finance expense	866	620	2,175	1,421
Finance expense lease liability	471	628	1,460	1,700
Equity-settled share-based payments	117	140	357	422
Unrealized foreign exchange loss (gain)	(457)	(47)	3	187
Adjusted EBITDA	27,903	29,018	95,945	94,100

b) Adjusted EBITDA Per Share - Diluted

Adjusted EBITDA per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of adjusted EBITDA per share - dilutive is based on the adjusted EBITDA as reported in the table above divided by the diluted number of shares outstanding.

c) Adjusted EBITDA as a Percentage of Revenue

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

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Revenue	164,333	160,634	525,707	480,987
Direct costs	146,637	131,666	443,496	387,166
Gross profit	17,696	28,968	82,211	93,821
Depreciation & amortization drilling and other equipment (included in direct costs)	16,346	11,516	41,528	32,977
Depreciation & amortization right-of-use asset (included in direct costs)	862	1,214	2,613	2,920
	34,904	41,698	126,352	129,718
Gross profit as a percentage of revenue excluding depreciation & amortization	21%	26%	24%	27%

e) SG&A Costs Excluding Share-Based Compensation as a Percentage of Revenue

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
SG&A Costs	12,661	15,885	48,476	50,726
Deduct:				
Share-based compensation (included in SG&A)	889	2,611	4,978	10,006
	11,772	13,274	43,498	40,720
Revenue	164,333	160,634	525,707	480,987
SG&A costs excluding share-based compensation as a percentage of revenue	7%	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 September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Cash flows from operating activities	20,065	28,740	41,475	79,225
Add (deduct):				
Changes in non-cash working capital	(1,308)	(6,040)	19,604	(7,288)
Interest paid	1,020	398	1,916	886
Income taxes paid	1,564	1,843	12,302	2,572
Funds from operations	21,341	24,941	75,297	75,395

b) Excess Cash Flow

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Cash flows from operating activities	20,065	28,740	41,475	79,225
Add (deduct):				
Changes in non-cash working capital	(1,308)	(6,040)	19,604	(7,288)
Interest paid	1,020	398	1,916	886
Income taxes paid	1,564	1,843	12,302	2,572
Cash payment on leases	(1,389)	(1,437)	(4,225)	(4,204)
	19,952	23,504	71,072	71,191
Proceeds on disposition of drilling equipment	9,127	6,973	30,932	26,683
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	(2,765)	(82)	(20,215)	(7,765)
Net proceeds	6,362	6,891	10,717	18,918
Growth capital expenditures	(13,760)	(11,061)	(42,597)	(59,798)
Excess cash flow	12,554	19,334	39,192	30,311

c) Working Capital

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

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

(Stated in thousands of dollars)

	September 30, 2025	December 31, 2024
Current assets	215,656	214,017
Deduct:		
Current liabilities	(113,424)	(129,472)
Working capital	102,232	84,545

d) Net Debt (Net Cash)

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

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

(Stated in thousands of dollars)

	September 30, 2025	December 31, 2024
Loans and borrowings	42,406	16,827
Deduct:		
Cash	(7,871)	(14,163)
Net debt (Net cash)	34,535	2,664

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Growth capital expenditures	13,760	11,061	42,597	59,798
Maintenance capital expenditures from asset retirements	1,402	82	15,602	6,252
Maintenance capital expenditures to replace downhole equipment losses	1,363	-	4,613	1,513
Total capital expenditures	16,525	11,143	62,812	67,563
Deduct:				
Proceeds on disposition of drilling equipment	(9,127)	(6,973)	(30,932)	(26,683)
Net capital expenditures	7,398	4,170	31,880	40,880

f) Remaining Distributable Balance under ROCS

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Excess cash flow	12,554	19,334	39,192	30,311
70% of excess cash flow	8,788	13,534	27,434	21,218
Deduct:				
Dividends paid to shareholders	(9,092)	(9,437)	(27,306)	(28,388)
Repurchase of shares under the NCIB	(2,339)	(12,612)	(3,250)	(15,756)
Remaining Distributable Balance under ROCS	(2,643)	(8,515)	(3,122)	(22,926)

Supplementary Financial Measures

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

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

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

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

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

“Funds from operations per share – diluted” is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of funds from operations per share - diluted is based on the funds from operations as reported in the table above divided by the diluted number of shares outstanding.

Definitions

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

“Capital expenditures” equate to the Corporation’s total acquisition of drilling and other equipment as stated on the Condensed Consolidated Interim Statements of Cash Flows and Note 6(a) 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.

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", "targets" 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 increase to the credit facilities is intended to provide PHX Energy flexibility to take advantage of lucrative opportunities when presented in the future;
- The Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through its dividend program, the ROCS program and its NCIB, particular during this times of market weaknesses;
- That net capital expenditures to be spent for the remainder of the year are anticipated to be lower than previous quarters and this would allow for sufficient level of excess cash flows to be used for shareholder returns and stay within the 70 percent threshold for the rest of the 2025-year;
- The expectation that equipment on order is largely to be delivered within the first quarter of 2026;
- The anticipated 2025 capital expenditure budget of \$65 million and the anticipated portion to be spent on growth and to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations;
- For 2026, the expected preliminary capital expenditure program is \$60 million, of which approximately half is anticipated to be spent on growth. The Corporation believes that its current fleet of MWD systems and motors will support its forecasted 2026-activity and the 2026 growth capital expenditures are expected to be mainly focused on further expanding the RSS fleets and Atlas motor rental fleets;
- The planned capital 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;
- The potential material adverse effect on the Canadian and US economy, the Canadian and US oil and natural gas industry and the Corporation and its results that new tariffs (those already implemented and those that are currently

paused, if they come into effect in the future), and any changes to these tariffs or imposition of any additional tariffs, taxes or import or export restrictions or prohibitions, could have;

- The anticipated effectiveness of the Corporation's supply chain and procurement strategies in helping to mitigate the impact of new and existing tariffs. Although the Corporation believes such strategies will somewhat mitigate the impact of tariffs, if significant tariffs affecting the Corporation are implemented for a prolonged period their impact on the Corporation's operations and results may be material to the Corporation;
- The potential adverse affects on industry activity and the Corporation related to the persistence of weak commodity prices;
- The expected and potentially fluctuating revenue from the Atlas sales division, due to the sporadic and cyclical nature of the customers' ordering frequency; and
- The amount expected to be allocated towards replacing equipment lost downhole could increase, should more downhole equipment losses occur throughout the year.

The above are stated under the headings: "Financial Results", "Dividends and ROCS", "Normal Course Issuer Bid", "Capital Spending", "Segmented Information", "Liquidity", "Cash Requirements for Capital Expenditures" and "Business Risk Factors". In addition, all information contained under the headings "Dividends and ROCS", "Global Trade and Supply Chain Update", "Cash Flow, Dividends, and ROCS", 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, 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 2025 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation; that there will be no significant adverse tariff events including intentional tariff wars that could have a significant impact on the markets in which the Corporation operates; 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 trade wars, 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 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 Interim Statements of Financial Position

(Stated in thousands of dollars, unaudited)

	September 30, 2025	December 31, 2024
ASSETS		
Current assets:		
Cash	\$ 7,871	\$ 14,163
Trade and other receivables	139,169	133,589
Inventories	57,176	63,135
Prepaid expenses	2,904	2,628
Current tax assets	8,536	502
Total current assets	215,656	214,017
Non-current assets:		
Drilling and other long-term assets (Note 6)	176,401	166,081
Right-of-use assets	22,291	24,943
Intangible assets	17,197	14,611
Investments	2,171	2,171
Other long-term assets	1,143	1,463
Deferred tax assets	151	-
Total non-current assets	219,354	209,269
Total assets	\$ 435,010	\$ 423,286
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 100,397	\$ 116,668
Dividends payable (Note 8d)	9,036	9,102
Current lease liabilities	3,968	3,702
Current tax liability	23	-
Total current liabilities	113,424	129,472
Non-current liabilities:		
Lease liabilities	28,484	31,650
Loans and borrowings (Note 7)	42,406	16,827
Deferred tax liabilities	25,947	19,792
Other (Note 8c)	1,579	3,340
Total non-current liabilities	98,416	71,609
Equity:		
Share capital (Note 8a)	200,810	203,841
Contributed surplus	7,507	7,189
Deficit	(18,389)	(28,291)
Accumulated other comprehensive income (AOCI)	33,242	39,466
Total equity	223,170	222,205
Total liabilities and equity	\$ 435,010	\$ 423,286

See accompanying notes to unaudited condensed consolidated interim financial statements, commitments (Note 6b)

Condensed Consolidated Interim Statements of Comprehensive Earnings

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

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Revenue (Note 4)	\$ 164,333	\$ 160,634	\$ 525,707	\$ 480,987
Direct costs	146,637	131,666	443,496	387,166
Gross profit	17,696	28,968	82,211	93,821
Expenses:				
Selling, general and administrative expenses	12,661	15,885	48,476	50,726
Research and development expenses	1,743	1,392	5,131	4,004
Finance expense	866	620	2,175	1,421
Finance expense lease liabilities	471	628	1,460	1,700
Other income (Note 9)	(7,743)	(4,504)	(22,840)	(18,503)
	7,998	14,021	34,402	39,348
Earnings before income taxes	9,698	14,947	47,809	54,473
Provision for income taxes				
Current	(6,226)	2,672	3,940	12,724
Deferred	7,463	2,115	6,726	1,222
	1,237	4,787	10,666	13,946
Net earnings	8,461	10,160	37,143	40,527
Other comprehensive income				
Foreign currency translation, net of tax	4,127	(2,217)	(6,224)	3,125
Equity investment loss through AOCI (Note 10)	-	-	-	(830)
Total comprehensive earnings	\$ 12,588	\$ 7,943	\$ 30,919	\$ 42,822
Earnings per share – basic	\$ 0.19	\$ 0.22	\$ 0.82	\$ 0.86
Earnings per share – diluted	\$ 0.16	\$ 0.22	\$ 0.78	\$ 0.86

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

(Stated in thousands of dollars except share capital numbers, unaudited)

Nine-month period ended September 30, 2025	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
	Number	Amount (\$)				
Balance, December 31, 2024	45,506,773	\$ 203,841	\$ 7,189	\$ 39,466	\$ (28,291)	\$ 222,205
Issuance of share capital on exercise of options	50,000	180	-	-	-	180
Common shares repurchased and cancelled	(379,000)	(3,250)	-	-	-	(3,250)
Share-based payments	-	-	357	-	-	357
Fair value of options exercised	-	39	(39)	-	-	-
Net earnings	-	-	-	-	37,143	37,143
Foreign currency translation, net of tax	-	-	-	(6,224)	-	(6,224)
Dividends	-	-	-	-	(27,241)	(27,241)
Balance, September 30, 2025	45,177,773	\$ 200,810	\$ 7,507	\$ 33,242	\$ (18,389)	\$ 223,170

Nine-month period ended September 30, 2024	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
	Number	Amount (\$)				
Balance, December 31, 2023	47,260,472	\$ 222,653	\$ 7,168	\$ 25,843	\$ (45,695)	\$ 209,969
Issuance of share capital on exercise of options	297,533	874	-	-	-	874
Common shares repurchased and cancelled	(1,648,232)	(15,756)	-	-	-	(15,756)
Share-based payments	-	-	422	-	-	422
Fair value of options exercised	-	322	(322)	-	-	-
Net earnings	-	-	-	-	40,527	40,527
Foreign currency translation, net of tax	-	-	-	3,125	-	3,125
Equity investment loss through AOCI (Note 10)	-	-	-	(830)	-	(830)
Dividends	-	-	-	-	(28,118)	(28,118)
Balance, September 30, 2024	45,909,773	\$ 208,093	\$ 7,268	\$ 28,138	\$ (33,286)	\$ 210,213

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

(Stated in thousands of dollars, unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Cash flows from operating activities:				
Earnings	\$ 8,461	\$ 10,160	\$ 37,143	\$ 40,527
Adjustments for:				
Depreciation and amortization	16,346	11,516	41,528	32,977
Depreciation and amortization right-of-use asset	862	1,214	2,613	2,920
Provision for income taxes	1,237	4,787	10,666	13,946
Unrealized foreign exchange loss (gain)	(457)	(47)	3	187
Net gain on disposition of drilling equipment (Note 6a)	(6,668)	(4,340)	(22,180)	(18,627)
Equity-settled share-based payments	117	140	357	422
Finance expense	866	620	2,175	1,421
Finance expense lease liabilities	471	628	1,460	1,700
Provision for inventory obsolescence	577	891	2,992	1,622
Interest paid on lease liabilities	(471)	(628)	(1,460)	(1,700)
Interest paid	(1,020)	(398)	(1,916)	(886)
Income taxes paid	(1,564)	(1,843)	(12,302)	(2,572)
Change in non-cash working capital	1,308	6,040	(19,604)	7,288
Net cash from operating activities	20,065	28,740	41,475	79,225
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	9,127	6,973	30,932	26,683
Acquisition of drilling and other equipment	(16,525)	(11,143)	(62,812)	(67,563)
Acquisition of intangible assets	-	(1,365)	(4,699)	(1,365)
Change in non-cash working capital	(4,656)	(9,361)	(3,899)	(5,178)
Net cash used in investing activities	(12,054)	(14,896)	(40,478)	(47,423)
Cash flows from financing activities:				
Net proceeds from loans and borrowings	1,078	9,500	26,021	11,500
Dividends paid to shareholders	(9,092)	(9,437)	(27,306)	(28,388)
Repurchase of shares under the NCIB	(2,339)	(12,612)	(3,250)	(15,756)
Payments of lease liability	(918)	(809)	(2,765)	(2,504)
Proceeds from exercise of options	-	53	180	874
Net cash used in financing activities	(11,271)	(13,305)	(7,120)	(34,274)
Net increase (decrease) in cash	(3,260)	539	(6,123)	(2,472)
Cash, beginning of period	10,696	13,798	14,163	16,433
Effect of movements in exchange rates on cash held	435	(134)	(169)	242
Cash, end of period	\$ 7,871	\$ 14,203	\$ 7,871	\$ 14,203

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements **For the three and nine-month periods ended September 30, 2025 and 2024**

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, rents performance drilling motors, and sells motor equipment and parts to oil and natural gas exploration and development companies in Canada, United States, and the Middle East regions. 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.

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, 2024.

The condensed consolidated interim financial statements were authorized by the Board of Directors (the "Board") on November 4, 2025.

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.

c) Use of Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS Accounting Standards as issued by the IASB requires management to make estimates and judgements 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 estimates and 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, 2024.

Effective September 1, 2025, the Corporation updated the estimated useful life of certain primary components of its motors as a result of the annual review of its useful lives. Management determined that the useful life of this equipment should be updated from 8 years to 5 years. As at September 30, 2025, an additional \$3 million in depreciation expense was recorded to reflect this change.

3. Material Accounting Policies

These condensed consolidated interim financial statements have been prepared utilizing the same material accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2024.

4. Revenue

The Corporation generates revenue primarily from providing directional drilling services to clients. Other sources of revenue include rental of performance drilling motors and sale of motor equipment and parts.

(Stated in thousands of dollars)

	Canada		United States		Total	
Three-month periods ended September 30,	2025	2024	2025	2024	2025	2024
Directional drilling services	43,571	43,228	108,538	105,232	152,109	148,460
Motor rental	533	423	11,393	9,789	11,926	10,212
Sale of motor equipment and parts	-	-	298	1,962	298	1,962
Total revenue	44,104	43,651	120,229	116,983	164,333	160,634

	Canada		United States		Total	
Nine-month periods ended September 30,	2025	2024	2025	2024	2025	2024
Directional drilling services	139,192	132,738	346,179	313,864	485,371	446,602
Motor rental	2,065	1,126	34,368	27,344	36,433	28,470
Sale of motor equipment and parts	-	-	3,903	5,915	3,903	5,915
Total revenue	141,257	133,864	384,450	347,123	525,707	480,987

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		Corporate		Total	
Three-month periods ended September 30,	2025	2024	2025	2024	2025	2024	2025	2024
Revenue	44,104	43,651	120,229	116,983	-	-	164,333	160,634
Direct costs	38,670	36,760	107,967	94,906	-	-	146,637	131,666
Gross profit	5,434	6,891	12,262	22,077	-	-	17,696	28,968
Expenses:								
Selling, general and administrative expenses	3,265	3,823	7,237	7,126	2,159	4,936	12,661	15,885
Research and development expenses	-	-	-	-	1,743	1,392	1,743	1,392
Finance expense	-	-	-	-	866	620	866	620
Finance expense lease liability	283	297	169	312	19	19	471	628
Other income	(1,327)	(1,838)	(6,416)	(2,666)	-	-	(7,743)	(4,504)
Reportable segment profit (loss) before income taxes	3,213	4,609	11,272	17,305	(4,787)	(6,967)	9,698	14,947

	Canada		United States		Corporate		Total	
Nine-month periods ended September 30,	2025	2024	2025	2024	2025	2024	2025	2024
Revenue	141,257	133,864	384,450	347,123	-	-	525,707	480,987
Direct costs	118,531	110,443	324,965	276,723	-	-	443,496	387,166
Gross profit	22,726	23,421	59,485	70,400	-	-	82,211	93,821
Expenses:								
Selling, general and administrative expenses	11,051	11,299	22,700	22,463	14,725	16,964	48,476	50,726
Research and development expenses	-	-	-	-	5,131	4,004	5,131	4,004
Finance expense	-	-	-	-	2,175	1,421	2,175	1,421
Finance expense lease liability	859	899	543	743	58	58	1,460	1,700
Other income	(4,686)	(4,765)	(18,154)	(13,738)	-	-	(22,840)	(18,503)
Reportable segment profit (loss) before income taxes	15,502	15,988	54,396	60,932	(22,089)	(22,447)	47,809	54,473

(Stated in thousands of dollars)

	Canada		United States		Corporate		Total	
As at September 30,	2025	2024	2025	2024	2025	2024	2025	2024
Acquisition of drilling and other equipment	21,749	27,444	41,063	40,119	-	-	62,812	67,563
Segment non-current assets	71,334	72,346	145,698	131,840	2,322	2,666	219,354	206,852
Total Assets	134,594	141,294	297,680	251,151	2,736	2,969	435,010	395,414

6. Drilling and Other Long-Term Assets

a) Acquisitions and Disposals

During the nine-month period ended September 30, 2025, the Corporation acquired assets with a cost of \$62.8 million (2024 - \$67.6 million).

Assets with a carrying amount of \$8.8 million (2024 - \$8.1 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of \$22.2 million (2024 - \$18.6 million), which is included in other income (see Note 9) in the condensed consolidated interim statement of comprehensive income.

b) Capital Commitments

As at September 30, 2025, the Corporation has entered into commitments to purchase drilling and other equipment for \$13.9 million (2024 - \$12 million); equipment on order is largely expected to be delivered before the end of the first quarter of 2026.

7. Loans and Borrowings

a) Terms and Covenants

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	Currency	Carrying Amount at September 30, 2025	Currency	Carrying Amount at December 31, 2024
Operating Facility	CAD	15,000	December 12, 2028	CAD	-	CAD	1,354
Syndicated Facility	CAD	95,000	December 12, 2028	CAD	42,406	CAD	9,719
Total CAD Facility	CAD	110,000		CAD	42,406	CAD	11,073
US Operating Facility	USD	25,000	December 12, 2028	USD	-	USD	4,000
Total USD Facility	USD	25,000		USD	-	USD	4,000

The carrying amount of loans and borrowings is presented net of borrowing costs amounting to \$0.6 million at September 30, 2025. Under the syndicated credit agreement, the Corporation is required to maintain certain financial covenants. As at September 30, 2025 the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	As at September 30, 2025
Debt to covenant EBITDA ⁽ⁱ⁾	<3.0x	0.36
Interest coverage ratio ⁽ⁱ⁾	>3.0x	44.41

⁽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.

In September 2025, the Corporation increased the borrowing amounts in the syndicated facility from CAD \$80 million to CAD \$95 million and in the US operating facility from USD \$20 million to USD \$25 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2028. With the increased borrowing amounts, the Corporation has approximately CAD \$67 million and USD \$25 million available to be drawn from its credit facilities. The

credit facilities are secured by substantially all of the Corporation's assets. 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 currently at the bank's prime rate plus 0.625 percent. Interest on the syndicated facility is currently at the Canadian Overnight Repo Rate Average ("CORRA") plus 1.625 percent.

8. Share Capital

a) Authorized and Issued Shares

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

(Stated in thousands of dollars except common shares outstanding)

	Number		Amount
Balance as at January 1, 2024	47,260,472	\$	222,653
Common shares repurchased and cancelled	(2,141,232)		(20,614)
Issued shares pursuant to share option plan	387,533		1,802
Balance as at December 31, 2024	45,506,773	\$	203,841
Common shares repurchased and cancelled	(379,000)		(3,250)
Issued shares pursuant to share option plan	50,000		219
Balance as at September 30, 2025	45,177,773	\$	200,810

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 2025

Number	Exercise Price	Expiration Date	Fair Value
150,000	\$ 8.71	March 6, 2030	\$ 1.19
150,000	8.53	March 6, 2030	1.22
300,000			

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 2025 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 38 percent, forfeiture rate of nil, dividend yield of 9.37 percent and a risk-free interest rate of 2.58 percent (2024 – expected share price volatility 41 percent, forfeiture rate of nil, dividend yield of 8.66 percent and a risk-free interest rate of 4.13 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.

For the three and nine-month periods ended September 30, 2025 the Corporation recognized a total compensation expense of \$0.1 million and \$0.4 million, respectively (2024 - \$0.1 million and \$0.4 million), for share options granted between 2023 and 2025 (2024 – share options granted between 2022 and 2024).

A summary of the status of the plan as at September 30, 2025 is presented below:

	September 30, 2025		December 31, 2024	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	881,667	\$ 6.75	994,200	\$ 4.80
Granted	300,000	8.62	275,000	9.20
Exercised	(50,000)	2.19	(387,533)	3.47
Outstanding, end of period	1,131,667	\$ 7.45	881,667	\$ 6.75
Options exercisable, end of period	839,994	\$ 6.98	614,995	\$ 5.87

The weighted-average share price at the date of exercise for share options exercised for the nine-month period ended September 30, 2025 was \$8.68 (2024 - \$8.91).

The range of exercise prices for options outstanding at September 30, 2025 are as follows:

Options Outstanding				Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price		Number	Weighted-Average Exercise Price
100,000	0.43	yrs	\$ 2.74	100,000	\$ 2.74
40,000	0.43	yrs	2.64	40,000	2.64
150,000	1.43	yrs	6.08	150,000	6.08
50,000	1.43	yrs	6.16	50,000	6.16
150,000	2.44	yrs	7.96	150,000	7.96
66,667	2.44	yrs	7.83	66,667	7.83
150,000	3.44	yrs	9.17	99,999	9.17
125,000	3.44	yrs	9.23	83,332	9.23
150,000	4.43	yrs	8.71	49,998	8.71
150,000	4.43	yrs	8.53	49,998	8.53
1,131,667	2.78	yrs	\$ 7.45	839,994	\$ 6.98

c) Retention Award Plan (Cash-Settled)

The retention award plan ("RAP") has two types of awards: Restricted Awards ("RAs") and Performance Awards ("PAs") and results in eligible participants, as approved by the Board, receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. The Corporation accounts 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, 2025, 297,130 PAs were granted (2024 – 236,112), 617,693 PAs settled at a weighted-average payout multiplier of 141 percent (2024 – 1,051,655 PAs settled at a weighted-average payout multiplier of 155 percent), and no PAs were forfeited (2024 – nil). As at September 30, 2025, 603,919 PAs were outstanding (2024 – 602,502).

The Corporation recorded a total of \$0.8 million and \$4.6 million compensation expense relating to these plans for the three and nine-month periods ended September 30, 2025 (2024 – \$2.5 million and \$9.6 million). The expense is included in selling, general and administrative expense and has a corresponding liability of \$4.4 million in trade and other payables for the current portion and \$1.6 million included in other liabilities for the long-term portion which had vesting dates after September 30, 2026 (2024 - \$7 million and \$2.5 million). There were 1,501,286 RAs and PAs outstanding as at September 30, 2025 (2024 – 1,587,459). The closing share price on September 30, 2025 of PHX stock was \$7.91.

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

	September 30, 2025	December 31, 2024
RAs and PAs outstanding January 1,	1,599,094	2,160,151
Granted	785,059	583,543
Settled	(860,786)	(1,141,980)
Forfeited	(22,081)	(2,620)
RAs and PAs outstanding, end of period	1,501,286	1,599,094

d) Dividends

On September 15, 2025, the Corporation declared a dividend of \$0.20 per share or \$9 million, payable on October 15, 2025, to shareholders of record on September 30, 2025.

e) Normal Course Issuer Bid (“NCIB”)

During the third quarter of 2025, 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 4,035,757 common shares, representing 10 percent of the Corporation’s public float of Common Shares as at August 5, 2025. The NCIB commenced on August 18, 2025 and will terminate on August 17, 2026. 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 NCIB, 379,000 common shares were purchased by the Corporation and cancelled for \$3.3 million in the nine-month period ended September 30, 2025. (2024 – 1,648,232 common shares were purchased and cancelled for \$15.8 million). No shares have been purchased under the current NCIB.

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2025	2024	2025	2024
Net gain on disposition of drilling equipment (Note 6a)	\$ 6,668	\$ 4,340	\$ 22,180	\$ 18,627
Miscellaneous other income	617	-	618	-
Foreign exchange loss (gain)	458	164	42	(124)
	\$ 7,743	\$ 4,504	\$ 22,840	\$ 18,503

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. 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 approximates the carrying value.

Equity investments in a company are designated as non-derivative financial assets measured at 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 three 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.

On July 16, 2024, 3.5 million warrants held by PHX Energy in DEEP Earth Energy Production Corp. ("DEEP") expired. The fair value of the warrants was assessed by management at June 30, 2024 considering that PHX Energy did not intend to exercise the warrants for additional equity in DEEP at the time. As a result of the assessment, a loss on revaluation of investments of \$0.8 million was recognized through other comprehensive income in the comparative period which represents the fair value assigned to the expired warrants.

11. Global Trade and Supply Chain Risk Update

Since coming into office in January this year, the US Administration has announced and implemented various tariffs against Canada and other nations, including China. The effective dates of some of these new tariffs have been implemented and some have been postponed. In response to the new US tariffs, the Canadian government as well as the governments of other nations have announced and/or implemented retaliatory tariffs. These new tariffs and any changes to these tariffs or imposition of any additional tariffs, taxes or import or export restrictions or prohibitions, could have material impacts on global economies, the Canadian and US oil and natural gas industries, interest and inflation rates and the Corporation's supply chains. The resulting higher levels of volatility and uncertainty could result in actual results being different from management's current estimates and those differences could be material.

Corporate Information

Board of Directors

John Hooks
Randolph ("Randy") M. Charron
Myron Tétreault
Karen David-Green
Lawrence Hibbard
Terry Freeman
Michael Buker

Officers

John Hooks
Executive Board Chair

Michael Buker
President & CEO

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Chief Technology Officer

Jeffery Shafer
Chief Operating Officer

Garrett Wright
Phoenix Technology Services USA Inc.
Vice President US Operations

David Raines
Phoenix Technology Services USA Inc.
Vice President US Sales & Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

Royal Bank of Canada
HSBC USA N.A.

Transfer Agent

Odyssey Trust Company
Calgary, Alberta