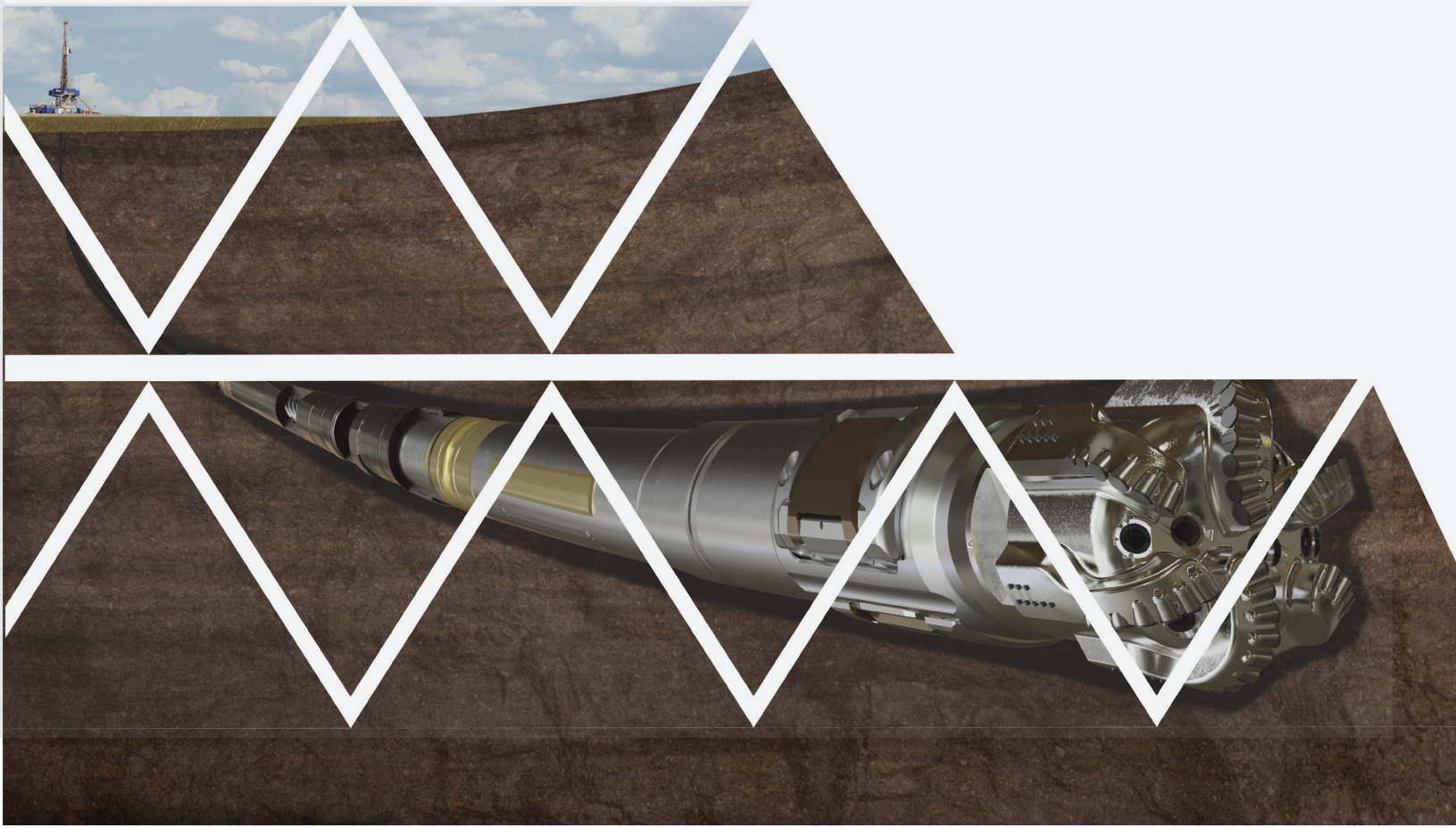
2026 Third Quarter Report

PHX
ENERGY SERVICES CORP.



Management's Discussion and Analysis

Third Quarter Report for the three and nine-month periods ended September 30, 2026 and 2025

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 2026 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 2026 third quarter report, and the Corporation's 2025 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 2025 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 3, 2026.

PHX Energy's Interim Financial Report for the three and nine-month periods ended September 30, 2026 and 2025 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 3, 2026.

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, 2026, PHX Energy generated consolidated revenue of $204.2 million, which is 24 percent higher than the $164.3 million generated in the third quarter of 2025 and the highest level of quarterly revenue achieved in the Corporation's history. For the third consecutive quarter, the Corporation achieved record Rotary Steerable Systems ("RSS") activity which represented 20 percent of the Corporation's consolidated activity (2025 – 13 percent). In the 2026 three-month period, PHX Energy's consolidated operating days grew by 16 percent to 8,567 which is only 33 days short of the record activity achieved in the first quarter of 2025. Consolidated revenue in the 2026-quarter included $14.7 million of motor rental revenue (2025 - $12.5 million).

- In the third quarter of 2026, adjusted EBITDA[(1)] was $33.7 million, 16 percent of consolidated revenue[(1)], an increase of 21 percent compared to $27.9 million, 17 percent of consolidated revenue, in the same 2025-quarter. In the 2026 three-month period, the Corporation incurred higher cash-settled share-based compensation expense of $3 million as compared to $0.8 million in the corresponding 2025-period. Adjusted EBITDA excluding cash-settled share-based compensation expense[(1)] for the three-month period ended September 30, 2026 was $36.6 million, 18 percent of consolidated revenue[(1)], as compared to $28.7 million, 17 percent of consolidated revenue[(1)] in the same 2025-quarter.

[(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.

- Earnings in the 2026-quarter were $10.5 million, $0.23 per share, as compared to $8.5 million, $0.16 per share, in the same 2025-period. Higher earnings were primarily driven by strong revenue and activity, particularly RSS, which is a high-margin business for the Corporation. Earnings in the 2026-period included depreciation and amortization expenses for drilling and other equipment of $18 million (pre-tax) which increased by 10 percent when compared to $16.3 million (pre-tax) in the corresponding 2025-quarter. This increase is the result of ongoing fixed asset additions as well as $2.3 million in additional depreciation recognized in the 2026-quarter relating to a change in the estimated useful life of certain primary components of motors that became effective in the third quarter of 2025.
- In the 2026-quarter, PHX Energy's US division's revenue was $141.7 million, an all-time record and 18 percent higher than the $120.2 million generated in the third quarter of 2025. The US division's operating days grew by 14 percent while the average number of active horizontal and directional rigs per day in the US industry increased by 10 percent quarter-over-quarter. The US division achieved record RSS activity which represented 25 percent of the division's operating days in the third quarter of 2026 (2025 - 20 percent). US division revenue in the 2026-quarter represented 69 percent of consolidated revenue (2025 - 73 percent).
- PHX Energy's Canadian division reported $62.5 million of quarterly revenue, a 42 percent increase compared to $44.1 million in the 2025-quarter and the highest level of quarterly revenue achieved by the division in the Corporation's history. Record RSS activity drove this achievement, representing 13 percent of Canadian operating days in the 2026 three-month period (2025 – 4 percent). Quarter-over-quarter, the Canadian division reported an 18 percent increase in operating days, which is relatively in line with the 19 percent increase in industry drilling days.
- The Corporation's net capital expenditures[(2)], which account for proceeds on disposition of drilling and other equipment, were $14.9 million for the 2026-quarter. For the three-month period ended September 30, 2026, PHX Energy spent $23.1 million in capital expenditures and proceeds on disposition of drilling and other equipment were $8.2 million. Proceeds on disposition of drilling and other equipment primarily relate to downhole equipment losses, for which operators compensate the Corporation at replacement cost. These reimbursements effectively fund the related capital expenditures, thereby reducing the need to finance such expenditures through operating cash flows or the Corporation's credit facilities.
- For the three-month period ended September 30, 2026, the Corporation generated excess cash flow[(2)] of $11.6 million, after deducting net capital expenditures[(2)] of $14.9 million (2025 - $12.6 million and $7.4 million, respectively).
- On September 15, 2026, the Corporation declared a dividend of $0.20 per share or $9.2 million, payable on October 15, 2026, to shareholders of record on September 30, 2026.
- As of September 30, 2026, the Corporation had CAD $58.9 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $18.8 million, resulting in net debt[(2)] of $40.1 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.

(December 31, 2025 - $6.4 million). The amount drawn on Canadian credit facilities has decreased from $64.5 million as at June 30, 2026. The proceeds from loans and borrowings were primarily used to fund capital acquisitions, dividends, share-based payments, and working capital. The Corporation had CAD $50.7 million and USD $25 million available to be drawn from its credit facilities as at the end of the 2026-quarter.

- As at September 30, 2026, the Corporation had a working capital[(2)] of $128.6 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,		
	2026	2025	% Change	**2026**	2025	% Change
Operating Results						
Revenue	**204,181**	164,333	24	**566,977**	525,707	8
Earnings	**10,530**	8,461	24	**30,432**	37,143	(18)
Earnings per share - diluted	**0.23**	0.16	44	**0.67**	0.78	(14)
Adjusted EBITDA [1]	**33,663**	27,903	21	**96,572**	95,945	1
Adjusted EBITDA per share - diluted [1]	**0.73**	0.61	20	**2.11**	2.07	2
Adjusted EBITDA as a percentage of revenue [1]	**16%**	17%		**17%**	18%	
Adjusted EBITDA excluding share-based compensation [1]	**36,639**	28,675	28	**109,890**	100,566	9
Adjusted EBITDA excluding share-based compensation per share - diluted [1]	**0.80**	0.62	29	**2.40**	2.16	11
Adjusted EBITDA excluding share-based compensation as a percentage of revenue [1]	**18%**	17%		**19%**	19%	
Cash Flow						
Cash flows from operating activities	**18,801**	20,065	(6)	**31,782**	41,475	(23)
Funds from operations [2]	**27,946**	21,341	31	**72,469**	75,297	(4)
Funds from operations per share - diluted [3]	**0.61**	0.46	33	**1.58**	1.62	(2)
Dividends paid per share [3]	**0.20**	0.20	-	**0.80**	0.60	33
Dividends paid	**9,153**	9,092	1	**36,402**	27,306	33
Capital expenditures	**23,074**	16,525	40	**66,634**	62,812	6
Excess cash flow [2]	**11,643**	12,554	(7)	**35,128**	39,192	(10)
Financial Position				**Sep 30 '26**	Dec 31 '25	
Working capital [2]				**128,552**	110,910	16
Net debt [2]				**40,129**	6,382	n.m.
Shareholders' equity				**232,338**	229,043	1
Common shares outstanding				**45,776,105**	45,367,773	1

n.m. – not meaningful

[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.

[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.

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 - diluted, adjusted EBITDA as a percentage of revenue, adjusted EBITDA excluding cash-settled share-based compensation expense, adjusted EBITDA excluding cash-settled share-based compensation expense per share - diluted, adjusted EBITDA excluding cash-settled share-based compensation expense 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, excess cash flow, working capital, net debt, net capital expenditures, remaining balance under ROCS target, average consolidated revenue per day, average revenue per operating day, dividends paid per share, dividends declared per share, effective tax rate, and funds from operations per share - diluted. 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.

Readers are cautioned that the MD&A should be read in conjunction with the section entitled "Non-GAAP and Other Financial Measures" at the end of this MD&A on pages 32 to 40 hereof for applicable definitions, rationale for use, method of calculation and reconciliations where applicable as well as the section entitled "Cautionary Statement Regarding Forward-Looking Information and Statements".

Outlook

We are excited to report record activity levels achieved in the third quarter of 2026, including record RSS days and all-time high revenue. These results reflect the success of our continued investment in premium technologies, particularly RSS, combined with the expertise and commitment of our people, who consistently deliver the drilling performance and operational reliability our clients expect.

Stronger commodity prices and positive industry project announcements have begun to support increased drilling activity across North America. Although geopolitical and economic uncertainties persist, including the ongoing conflict in the Middle East and uncertainty surrounding the trade environment, there is growing optimism that the improvement in industry activity will be sustained.

Within this environment, we believe the increasing adoption of RSS technology presents significant opportunities for continued growth, as operators seek greater drilling efficiencies in increasingly long and complex well designs. The Corporation has established a leadership position as an RSS provider in both Canada and the US, supported by our diverse RSS fleet and technical expertise. Our proprietary Real-Time RSS Communications technology and exclusive 7 ⅞" hole size RSS capabilities further strengthen our competitive position in this growing segment of the directional market.

Record RSS activity in both Canada and the US has resulted in demand exceeding the capacity of our owned RSS fleet. This growth complements the strength of our overall directional drilling business, which continues to benefit from our comprehensive suite of premium technologies and commitment to operational excellence. With strong activity levels expected to continue into 2027, the Corporation is increasing its 2026 capital expenditure budget by $8 million to advance equipment purchases in support of anticipated 2027 demand and has approved a 2027 capital expenditure budget of $75 million. Our capital investments will remain focused on premium technologies, particularly expanding our owned RSS fleet and associated equipment, to support growth in higher margin work and strengthen future operating performance.

Despite record revenue and activity levels, the corresponding improvement in profitability has been limited. The benefits of growth in higher margin business lines continue to be partially offset by inflationary pressures and trade-related cost increases, while securing corresponding pricing increases from clients remains challenging. As industry conditions continue to strengthen, we are optimistic that our ongoing efforts to work with clients to better align pricing with the drilling efficiencies and operational value we deliver will begin to yield positive results. In the meantime, we remain focused on protecting margins through disciplined cost management, strategic procurement initiatives and continued improvements in operational efficiencies.

Our capital allocation priorities remain unchanged. We continue to balance disciplined investment in strategic growth opportunities with maintaining a strong balance sheet and returning capital to shareholders through our Return of Capital

Strategy ("ROCS"), which targets returning up to 70 percent of excess cash flow to shareholders. We expect distributions in 2026 to exceed this target and believe this level of return is supported by the Corporation's strong operational and financial performance. While we believe the current market valuation does not fully reflect the underlying value of our business, we remain committed to creating shareholder value through our ROCS framework, including regular quarterly dividends and when opportunistic share repurchases under our NCIB and other distributions.

Strategic priorities for 2026 and looking into 2027 continue to be:

- Investment in Industry Leading Down Hole Technology
- Deliver Operational Efficiencies
- Protecting Margins in a Volatile Environment
- Create Shareholder Value

Our disciplined approach to capital allocation continues to balance investment in long-term growth with returning capital to shareholders, positioning the Corporation to create sustainable value.

Michael Buker, President & CEO
November 3, 2026

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 in the US, Canada, and the Middle East. In connection with the services it provides, PHX Energy engineers 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. The Corporation has sales and service facilities in Houston, Texas; Midland, Texas; and Oklahoma City, Oklahoma. Internationally, PHX Energy has administrative offices in Luxembourg, Switzerland, 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

PHX Energy generated record quarterly consolidated revenue of $204.2 million for the three-month period ended September 30, 2026, up 24 percent from $164.3 million in the same quarter of 2025. Record revenue was driven by robust drilling activity and RSS growth in the US and Canada, supported by ongoing fleet expansion and increased adoption of RSS and related premium technologies.

The third quarter of 2026 marked another strong quarter for the Corporation's US division, with revenue increasing 18 percent to a record of $141.7 million from $120.2 million in the third quarter of 2025. PHX Energy's US operating days increased 14 percent to 4,879 days, compared to 4,286 days in the same 2025-period. This growth outpaced the US rig count, which increased 10 percent over the same period, demonstrating the continued strength of the division's market position and activity levels. For the three-month period ended September 30, 2026, the US division delivered record RSS activity with RSS operating days increasing to 25 percent of the division's total operating days from 20 percent in the comparable 2025-period. The US division's average revenue per day[(3)] for directional drilling services improved by 4 percent quarter-over-quarter. The US motor rental division generated revenue of $12.6 million, an increase of 11 percent from $11.4 million in the same 2025-period while sales of motor equipment and parts contributed $0.6 million of revenue compared to $0.3 million in 2025. The Corporation's US division accounted for 69 percent of consolidated revenue during the 2026-quarter, compared with 73 percent in the same quarter of 2025.

For the three-month period ended September 30, 2026, the Corporation's Canadian segment revenue of $62.5 million marked its highest quarterly revenue in the division's history and represented a 42 percent increase from $44.1 million in the corresponding period of 2025. The Canadian division recorded 3,688 operating days in the 2026-quarter, up 18 percent from the 3,128 operating days in the third quarter of 2025. This growth was broadly in line with the 19 percent increase in Canadian industry drilling days over the same period. During the third quarter of 2026, the Canadian segment achieved record RSS activity with RSS operating days accounting for 13 percent of its total operating days, an increase from 4 percent in the same 2025-quarter. The continued expansion of RSS activity primarily contributed to the 19 percent increase in the division's average revenue per day[(3)] for directional drilling services, which rose to $16,404 from $13,737 in the comparable 2025-quarter. PHX Energy's Canadian motor rental division also delivered strong growth generating $2 million of revenue in the 2026-period compared to $1.1 million in the same period of 2025.

In the 2026 three-month period, earnings were $10.5 million (2025 - $8.5 million), adjusted EBITDA[(1)] was $33.7 million (2025 - $27.9 million), and adjusted EBITDA as a percentage of consolidated revenue[(1)] was 16 percent (2025 – 17 percent). Higher

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(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.

earnings were primarily driven by strong revenue and activity levels, led by continued growth in RSS, which delivers higher margins and enhanced profitability for the Corporation. Earnings in the 2026-period included depreciation and amortization expenses on drilling and other equipment of $18 million (pre-tax) which increased by 10 percent as compared to $16.3 million (pre-tax) in the corresponding 2025-quarter. This increase is the result of ongoing fixed asset additions as well as $2.3 million in additional depreciation relating to a change in the estimated useful life of certain primary components of motors that became effective in the third quarter of 2025.

As at September 30, 2026, the Corporation had working capital[(2)] of $128.6 million and net debt[(2)] of $40.1 million. The Corporation has CAD $50.7 million and USD $25 million available to be drawn from its credit facilities at the end of the 2026-quarter.

Dividends and ROCS

On September 15, 2026, the Corporation declared a dividend of $0.20 per share payable to shareholders of record on September 30, 2026. An aggregate of $9.2 million was paid to shareholders on October 15, 2026.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2026	2025	**2026**	2025
Excess cash flow[(2)]	**11,643**	12,554	**35,128**	39,192
Targeted 70% of excess cash flow under ROCS	**8,150**	8,788	**24,590**	27,434
Add:				
Remaining balance under ROCS target carried forward from the previous year	**-**	-	**8,691**	-
	8,150	8,788	**33,281**	27,434
Deduct:				
Dividends paid to shareholders	**(9,153)**	(9,092)	**(36,402)**	(27,306)
Repurchase of shares under the NCIB	**-**	(2,339)	**-**	(3,250)
Remaining balance under ROCS target[(2)]	**(1,003)**	(2,643)	**(3,121)**	(3,122)

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, 2026, excess cash flow decreased primarily due to higher net capital expenditures[(2)]. The Corporation continued to prioritize shareholder returns while protecting

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its financial position. For the three and nine-month periods ended September 30, 2026, PHX Energy paid $9.2 million and $36.4 million in dividends to shareholders, respectively. These distributions exceeded the 70 percent target in both the third quarter and year-to-date periods. Based on projected capital expenditures for the remainder of the year, excess cash flow[(2)] in the fourth quarter is expected to remain consistent with third-quarter levels, and the Corporation is anticipated to remain in an over-distributed position relative to its ROCS target for the 2026-year.

Normal Course Issuer Bid ("NCIB")

During the third quarter of 2026, 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 4,137,577 common shares, representing 10 percent of the Corporation's public float of common shares as at August 6, 2026. The NCIB commenced on August 18, 2026 and will terminate on August 17, 2027. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the previous and current NCIB, no common shares were purchased and cancelled by the Corporation in the nine-month period ended September 30, 2026. (2025 – 379,000 common shares were purchased for $3.3 million and cancelled).

Capital Spending

For the three-month period ended September 30, 2026, the Corporation spent $23.1 million in capital expenditures, of which $15.3 million was spent on growing the Corporation's fleet of drilling equipment, $4.5 million was spent to replace retired assets, and $3.3 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $8.2 million, the Corporation's net capital expenditures[(2)] for the 2026-period were $14.9 million. Proceeds from the disposition of drilling and other equipment primarily arise from downhole equipment losses, for which operators compensate the Corporation at replacement cost. As a result, the associated capital expenditures are effectively funded by operator reimbursements rather than solely through cash flows from operating activities or, when necessary, borrowings under the Corporation's credit facilities.

Capital expenditures in the 2026-quarter were primarily directed towards Velocity Real-Time systems ("Velocity") and RSS, both PowerDrive Orbit and iCruise and the Corporation's proprietary Real-Time RSS Communications technologies.

[(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.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2026	2025	**2026**	2025
Growth capital expenditures	**15,274**	13,760	**37,172**	42,597
Maintenance capital expenditures from asset retirements	**4,464**	1,402	**21,394**	15,602
Maintenance capital expenditures to replace downhole equipment losses	**3,336**	1,363	**8,068**	4,613
Total capital expenditures	**23,074**	16,525	**66,634**	62,812
Deduct:				
Proceeds on disposition of drilling equipment	**(8,203)**	(9,127)	**(33,603)**	(30,932)
Net capital expenditures[(2)]	**14,871**	7,398	**33,031**	31,880

As at September 30, 2026, the Corporation had capital commitments to purchase drilling and other equipment for $21.9 million, $15 million of which is growth capital allocated as follows: $6.1 million for RSS systems including its proprietary Real-Time RSS Communications technologies, $3.6 million for Velocity, $4.5 million for performance drilling motors, and $0.8 million for other equipment. Equipment on order is largely expected to be delivered in the last quarter of 2026 and the first quarter of 2027.

In October 2026, the Board approved an increase to the 2026 capital expenditure budget from $80 million to $88 million, of which approximately 60 percent is anticipated to be spent on growth. The remainder is anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations. The increase in the 2026 capital expenditure budget largely relates to growing the Corporation's RSS fleet, including its proprietary Real-Time RSS Communications technologies.

For 2027, the Corporation's preliminary capital expenditure program is expected to total approximately $75 million, with roughly half allocated to growth initiatives and the remainder to maintenance capital. Growth expenditures are expected to be primarily directed toward expanding the Corporation's RSS, Velocity, and Atlas motor fleets. Maintenance capital is expected to support ongoing maintenance of fleet capacity and the replacement of equipment lost downhole during drilling operations.

The Corporation currently possesses approximately 959 Atlas motors, comprised of various configurations including its 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", and 9.00" and 128 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 125 RSS tools. The size and diversity of PHX Energy's RSS fleet creates unique competitive advantages in that it is comprised of both the PowerDrive Orbit and iCruise systems, includes its proprietary Real-Time RSS Communications technology for both systems and is one of the only fleets today to have a 7⅞" RSS tool along with the traditional RSS tool sizes.

[(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.

Results of Operations

Three and Nine-Month periods ended September 30, 2026 and 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,		
	2026	2025 *Adjusted*[(i)]	% Change	**2026**	2025 *Adjusted*[(i)]	% Change
Directional drilling services	**188,954**	151,502	25	**522,483**	482,543	8
Motor rental	**14,674**	12,533	17	**43,179**	39,261	10
Sale of motor equipment and parts	**553**	298	86	**1,315**	3,903	(66)
Total revenue	**204,181**	164,333	24	**566,977**	525,707	8

(i) There was a prior period immaterial misclassification of certain motor rental revenue as directional drilling revenue within the Canadian operating segment. Comparative amounts have been adjusted. For the three-month period ended September 30, 2025, $0.6 million was reclassified from directional drilling services to motor rental. For the nine-month period ended September 30, 2025, $2.8 million was reclassified from directional drilling services to motor rental.

For the three-month period ended September 30, 2026, PHX Energy generated consolidated revenue of $204.2 million, which is 24 percent higher than the $164.3 million generated in the third quarter of 2025 and the highest quarterly revenue in the Corporation's history. Results were driven by strong drilling activity across both the US and Canada, along with record RSS activity, which accounted for 20 percent of consolidated operating days in the 2026-quarter compared to 13 percent in 2025. For the nine-month period ended September 30, 2026, the Corporation generated consolidated revenue of $567 million, which is 8 percent higher than the revenue of $525.7 million in the same period of 2025.

During the third quarter of 2026, the average number of horizontal and directional rigs operating per day in the US was 563, an increase of 10 percent from the third quarter of 2025 and 7 percent from the second quarter of 2026. In Canada, industry horizontal and directional drilling activity (as measured by drilling days) reached 18,094 days in the 2026-quarter, up 19 percent from 15,207 days in the comparable 2025-period. In comparison, the Corporation's consolidated operating days increased by 16 percent to 8,567 days in the 2026-quarter as compared to 7,413 days in the 2025-quarter. For the nine-month period ended September 30, 2026, consolidated operating days were up 5 percent to 23,921 from 22,861 in the same period of 2025.

For both the three and nine-month periods ended September 30, 2026, average consolidated revenue per day[3] for directional drilling services improved by 8 percent and 3 percent, respectively, to $22,057 (2025 - $20,437) and $21,842 (2025 – $21,108). The improvements are primarily attributable to continued growth in RSS activity.

For the three and nine-month periods of 2026, revenue generated by PHX Energy's Atlas motor rental division increased by 17 percent to $14.7 million (2025 - $12.5 million) and 10 percent to $43.2 million (2025 - $39.3 million), respectively. The Corporation's US motor rental division continues to pursue growth by broadening its customer base, supported by strategic investments in personnel, equipment, and operational resources.

In the three and nine-month periods ended September 30, 2026, revenue from the sale of motor equipment and parts were $0.6 million and $1.3 million, respectively, compared to $0.3 million and $3.9 million in the corresponding periods of 2025. Revenue from this line of business is expected to fluctuate between periods due to the intermittent and cyclical nature of customer ordering patterns, as well as changes in customers' equipment fleets and demand requirements.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2026	2025	% Change	**2026**	2025	% Change
Direct costs	**175,233**	146,637	20	**484,423**	443,496	9
Depreciation & amortization drilling and other equipment (included in direct costs)	**18,012**	16,346	10	**52,180**	41,528	26
Depreciation & amortization right-of-use asset (included in direct costs)	**669**	862	(22)	**2,344**	2,613	(10)
Gross profit as a percentage of revenue excluding depreciation & amortization [1]	**23%**	21%		**24%**	24%	

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, 2026, direct costs increased by 20 percent to $175.2 million as compared to $146.6 million in the same 2025-period. For the nine-month period ended September 30, 2026, direct costs increased 9 percent to $484.4 million from $443.5 million in 2025.

In the 2026 three and nine-month periods, the Corporation's depreciation and amortization on drilling and other equipment increased by 10 percent and 26 percent, respectively, mainly as a result of ongoing fixed asset additions as well as additional

[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.
[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.

depreciation recorded in the 2026-periods relating to a change in the estimated useful life of certain primary components of motors that was effective in the third quarter of 2025. The Corporation recorded an additional $2.3 million and $7.7 million of additional depreciation in the three and nine-month periods ended September 30, 2026, respectively, relating to the aforementioned change.

Apart from higher depreciation and amortization on drilling and other equipment, the increase in direct costs during both 2026-periods was primarily attributable to higher activity levels, particularly within the RSS business, increased costs for equipment parts and repair services, and higher personnel expenses driven by both market conditions and activity growth. As RSS activity continued to expand, RSS-related repair costs increased, and despite ongoing fleet expansion, the Corporation periodically relied on rental equipment in certain situations to meet customer demand. Obtaining corresponding price increases from customers for these overall higher costs remains difficult in the current market environment, however, Management continues to pursue opportunities where appropriate. In addition, Management is actively evaluating alternative suppliers and negotiating pricing concessions to help mitigate cost pressures.

For the three-month period ended September 30, 2026, gross profit as a percentage of revenue excluding depreciation and amortization[1] increased to 23 percent from 21 percent in the comparable period of 2025, primarily reflecting strong activity levels and continued growth of high-margin RSS activity. For the nine-month period ended September 30, 2026, gross profit as a percentage of revenue excluding depreciation and amortization[1] remained consistent at 24 percent, unchanged from the same period in 2025.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2026	2025	% Change	**2026**	2025	% Change
Selling, general and administrative ("SG&A") costs	**17,795**	12,661	41	**59,886**	48,476	24
Cash-settled share-based compensation (included in SG&A costs)	**2,976**	772	285	**13,318**	4,621	188
Equity-settled share-based compensation (included in SG&A costs)	**154**	117	32	**450**	357	26
SG&A costs excluding share-based compensation as a percentage of revenue[1]	**7%**	7%		**8%**	8%	

For the three-month period ended September 30, 2026, SG&A costs were $17.8 million, an increase of 41 percent from $12.7 million in the corresponding period of 2025. For the nine-month period ended September 30, 2026, SG&A expenses totaled $59.9 million, up 24 percent from $48.5 million in the comparable 2025-period. Higher SG&A costs in both 2026-periods were primarily driven by increased personnel expenses and higher cash-settled share-based compensation largely resulting from the rise in PHX Energy's share price during the periods.

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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, 2026, PHX Energy recognized $3 million in related compensation expense as compared to $0.8 million in the same 2025-period. For the nine-month period ended September 30, 2026, the related compensation expense totaled $13.3 million, compared with $4.6 million in the same period of 2025. Changes in cash-settled share-based compensation expense in the 2026-periods were mainly driven by fluctuations in the Corporation's share price and the number of awards granted in the period. During the third quarter of 2026, the Corporation's share price increased from $10.64 at June 30, 2026, to $11.85 at September 30, 2026, compared to a decrease from $8.05 to $7.91 during the same period in 2025. For the nine-month period ended September 30, 2026, the Corporation's share price increased from $7.50 at December 31, 2025, to $11.85, whereas in the comparable 2025 period it declined from $9.32 at December 31, 2024, to $7.91 at September 30, 2025. There were 1,420,048 retention awards outstanding as at September 30, 2026 (2025 – 1,501,286). SG&A costs excluding share-based compensation as a percentage of revenue[1] remained unchanged at 7 percent for the three-month period and 8 percent for the nine-month period ended September 30, 2026, consistent with the levels reported in the corresponding 2025-periods.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2026	2025	% Change	**2026**	2025	% Change
Research and development expense	**1,879**	1,743	8	**5,626**	5,131	10

For the three and nine-month periods ended September 30, 2026, PHX Energy spent $1.9 million and $5.6 million on research and development ("R&D") expenditures, an increase of 8 percent and 10 percent as compared to $1.7 million and $5.1 million spent in the corresponding 2025-periods. The increase in R&D expenditures during the 2026 periods was driven primarily by higher personnel-related costs and prototype and equipment component expenses associated with strategic development projects, including enhancements to PHX Energy's Real-Time RSS Communications fleet and expanded RSS functionalities. The Corporation has progressively increased its R&D investment since 2020 to maintain its competitive advantage and reinforce its position as a technology leader in the sector.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2026	2025	% Change	**2026**	2025	% Change
Finance expense	**869**	866	-	**2,446**	2,175	12
Finance expense lease liabilities	**470**	471	-	**1,345**	1,460	(8)

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Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period ended September 30, 2026, finance expense was $0.9 million, consistent with the comparable 2025-period. For the nine-month period ended September 30, 2026, finance expense increased by 12 percent to $2.4 million from $2.2 million in the same period of 2025. The increase is primarily due to higher average borrowings under the Corporation's credit facilities to finance capital expenditures, dividends, and share-based payment obligations.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three-month period ended September 30, 2026, finance expense related to lease liabilities was $0.5 million, unchanged from the same period in 2025. For the nine-month period ended September 30, 2026, finance expense lease liabilities declined to $1.3 million from $1.5 million in the corresponding 2025 period, reflecting the expiration of certain lease arrangements during 2025 and 2026.

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2026	2025	**2026**	2025
Net gain on disposition of drilling equipment	**5,697**	6,668	**24,249**	22,180
Foreign exchange gains (losses)	**(158)**	458	**228**	42
Miscellaneous other income	**70**	617	**418**	618
Recovery of bad debt	**-**	-	**117**	-
Other income	**5,609**	7,743	**25,012**	22,840

For the three and nine-month periods ended September 30, 2026, the Corporation recognized other income of $5.6 million and $25 million, respectively, compared to $7.7 million and $22.8 million in the corresponding periods of 2025. In both periods, other income primarily comprised of net gains on the disposition of drilling equipment. These gains largely result from operator reimbursements for downhole equipment losses, where compensation received exceeds the carrying value of the lost equipment. The gains recognized are reduced by losses associated with the retirement of assets before the end of their estimated useful lives. In the 2026 three-month period, net gain on disposition of drilling equipment declined due to fewer high-value downhole equipment losses and a greater number of assets retired in the period. In contrast, net gain on disposition of drilling equipment for the 2026 nine-month period increased as a result of higher occurrences of high-value downhole equipment losses during the period.

Foreign exchange losses of $0.2 million for the three-month period and gains of $0.2 million for the nine-month period ended September 30, 2026 (2025 – gains of $0.5 million and $0.1 million, respectively), were primarily attributable to the revaluation and settlement of CAD-denominated intercompany payables in the US.

In the three and nine-month periods of 2026, the miscellaneous other income of $0.1 million and $0.4 million (2025 - $0.6 million in both 2025-periods) pertains to sundry and occasional transactions, such as proceeds from the sale of scrapped metal and machining services for a third party.

In the nine-month period ended September 30, 2026, PHX Energy recovered $0.1 million of bad debt which related to a client in the US.

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2026	2025	**2026**	2025
Provision for income taxes	**3,014**	1,237	**7,831**	10,666
Effective tax rates [3]	**22%**	13%	**20%**	22%

For the three and nine-month periods ended September 30, 2026, the Corporation reported a provision for income tax of $3 million and $7.8 million, respectively, compared to $1.2 million and $10.7 million in the corresponding periods of 2025. PHX Energy's effective tax rate[3] was 22 percent for the three-month period and 20 percent for the nine-month period, both of which were below the combined US federal and state corporate income tax rate of 22.5 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent. The lower effective tax rates primarily resulted from the non-taxable portion of gains on disposal of assets in Canada and earnings generated in a foreign jurisdiction subject to lower income tax rate.

Segmented Information

The Corporation reports two operating segments on a geographical basis throughout the US, primarily in the Gulf Coast, Mid-Continental, Northeast, and Rocky Mountain regions, 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.

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United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2026	2025	% Change	**2026**	2025	% Change
Directional drilling services	**128,462**	108,538	18	**356,147**	346,179	3
Motor rental	**12,646**	11,393	11	**37,777**	34,368	10
Sale of motor equipment and parts	**553**	298	86	**1,315**	3,903	(66)
Total revenue	**141,661**	120,229	18	**395,239**	384,450	3
Direct costs	**122,849**	107,967	14	**341,296**	324,965	5
Gross profit	**18,812**	12,262	53	**53,943**	59,485	(9)
Expenses:						
Selling, general and administrative expenses	**7,852**	7,237	8	**22,784**	22,700	-
Research and development expenses	**-**	-	-	**-**	-	-
Finance expense	**-**	-	-	**-**	-	-
Finance expense lease liability	**132**	169	(22)	**425**	543	(22)
Other income	**(4,535)**	(6,416)	(29)	**(20,047)**	(18,154)	10
Reportable segment profit before income taxes	**15,363**	11,272	36	**50,781**	54,396	(7)

For the three and nine-month periods ended September 30, 2026, PHX Energy's US division generated revenue of $141.7 million and $395.2 million, respectively, representing increases of 18 percent and 3 percent compared to $120.2 million and $384.5 million in the corresponding periods of 2025. Revenue generated by the US division in the third quarter of 2026 was the highest quarterly revenue achieved by the division in the Corporation's history.

The US segment recorded 4,879 operating days in the third quarter of 2026, up 14 percent from 4,286 days in the comparable 2025-period. This growth outpaced the broader US market where the average number of active horizontal and directional rigs increased by 10 percent to 563 rigs per day from 513 rigs per day in the third quarter of 2025. Supported by strong industry drilling activity, the US division achieved record RSS activity during the quarter, with RSS representing 25 percent of operating days compared to 20 percent in the corresponding 2025-quarter. As a result, average revenue per day[3] for directional drilling services increased 4 percent to $26,330 for the three-month period ended September 30, 2026, compared to $25,327 in the same period of 2025.

For the nine-month period ended September 30, 2026, US operating days[3] were 13,592, up 2 percent from 13,320 days in the corresponding 2025-period, despite a 1 percent decline in the average number of active horizontal and directional rigs per day in the US industry. RSS activity continued to gain momentum, representing 25 percent of operating days in the first three

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quarters of 2026, an increase from 22 percent in the comparable 2025-period. For the nine-month period ended September 30, 2026, the US division's average revenue per day increased modestly to $26,203, up 1 percent from $25,989 in the corresponding 2025-period.

As operators seek to improve drilling efficiency, the industry trend toward longer lateral sections and more complex horizontal well designs, including U-turn and J wells, has continued in certain basins. The Corporation's fleet capabilities and operational expertise are well suited to these increasingly sophisticated applications, enabling the US division to remain actively engaged in drilling such wells throughout the first three quarters of 2026. During the 2026-quarter, Phoenix USA was active in the Permian, Scoop/Stack, DJ Basin, Uinta, Bakken and Marcellus/Utica basins. Additionally, the division was involved with Gulf Coast gas storage projects.

For the three and nine-month periods ended September 30, 2026, US motor rental revenue increased by 11 percent and 10 percent to $12.6 million and $37.8 million, respectively, compared to $11.4 million and $34.4 million in the corresponding periods of 2025. Revenue growth in both 2026-periods was primarily driven by an expanding customer base, a larger Atlas motor fleet, and a growing preference among operators for an a la carte approach to drilling services rather than bundled service offerings. As a high-margin business line, motor rentals remain a key strategic growth area for the Corporation.

In the 2026 three and nine-month periods, PHX Energy's US operations generated $0.6 million and $1.3 million of revenue from the sale of motors and parts compared to $0.3 million and $3.9 million in the corresponding 2025-periods. Due to the intermittent and cyclical nature of the customers' ordering frequency and changes in customers' equipment fleet and demand, it is expected that revenue from this line of business will fluctuate between periods.

For the three-month period ended September 30, 2026, the US segment's reportable segment income before tax increased by 36 percent to $15.4 million from $11.3 million in the same period of 2025. Greater profitability was primarily driven by strong activity levels and continued growth in the segment's high-margin RSS business. For the nine-month period ended September 30, 2026, the US segment's reportable segment income before tax decreased by 7 percent to $50.8 million from $54.4 million in the same 2025-period. Margins in the 2026 nine-month period declined primarily due to higher direct costs driven largely by increased depreciation and amortization of drilling and other equipment, as well as higher repair and equipment rental costs associated with growth in RSS and motor rental activity. Lower sales of motor equipment and parts also negatively impacted margins. These effects were partially offset by higher other income mainly from net gains on disposition of drilling and other equipment.

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2026	2025 *Adjusted*[(i)]	% Change	**2026**	2025 *Adjusted*[(i)]	% Change
Directional drilling services	**60,492**	42,964	41	**166,336**	136,364	22
Motor rental	**2,028**	1,140	78	**5,402**	4,893	10
Total revenue	**62,520**	44,104	42	**171,738**	141,257	22
Direct costs	**52,384**	38,670	35	**143,127**	118,531	21
Gross profit	**10,136**	5,434	87	**28,611**	22,726	26
Expenses:						
Selling, general and administrative expenses	**4,659**	3,265	43	**14,301**	11,051	29
Research and development expenses	**-**	-	-	**-**	-	-
Finance expense	**-**	-	-	**-**	-	-
Finance expense lease liability	**269**	283	(5)	**819**	859	(5)
Other income	**(1,074)**	(1,327)	(19)	**(4,965)**	(4,686)	6
Reportable segment profit before income taxes	**6,282**	3,213	96	**18,456**	15,502	19

(i) There was a prior period immaterial misclassification of certain motor rental revenue as directional drilling revenue within the Canadian operating segment. Comparative amounts have been adjusted. For the three-month period ended September 30, 2025, $0.6 million was reclassified from directional drilling services to motor rental. For the nine-month period ended September 30, 2025, $2.8 million was reclassified from directional drilling services to motor rental.

For the three and nine-month periods ended September 30, 2026, PHX Energy's Canadian operations generated revenue of $62.5 million and $171.7 million, respectively, representing increases of 42 percent and 22 percent compared to $44.1 million and $141.3 million in the corresponding 2025-periods. Revenue growth in both 2026-periods was primarily driven by the continued expansion of the Canadian RSS fleet and increased market penetration of the Corporation's RSS services. In the third quarter of 2026, the Canadian division achieved record quarterly revenue and its highest level of RSS activity to date, with RSS accounting for 13 percent of its operating days, up from 4 percent in the same period of 2025. For the first nine months of 2026, RSS activity rose to 13 percent of operating days from 7 percent in the same 2025-period. Continued growth in RSS activity contributed to increases in the Canadian division's average revenue per day[(3)] for directional drilling services of 19 percent and 13 percent to $16,404 and $16,104 in the three and nine-month periods ended September 30, 2026, respectively, compared to the corresponding 2025-periods.

In the third quarter of 2026, PHX Energy's Canadian operating days increased 18 percent to 3,688 days from 3,128 days in the same 2025-quarter, largely in line with the 19 percent increase in industry horizontal and directional drilling activity, as

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measured by drilling days. In the 2026 nine-month period, the Canadian segment's operating days[3] increased 8 percent to 10,329 days, which is slightly below the industry growth rate of 10 percent. During the 2026-quarter, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Ellerslie, Charlie Lake, Cummings, Sparky, and Scallion basins.

For the three-month period ended September 30, 2026, the Canadian segment's reportable segment income before tax increased to $6.3 million from $3.2 million in the same 2025-period. For the nine-month period ended September 30, 2026, the Canadian segment's reportable segment income before tax increased by 19 percent to $18.5 million from $15.5 million in the comparable 2025-period. The improvement in both 2026-periods was primarily attributable to stronger activity levels, including continued growth in the segment's high-margin RSS revenue stream. Higher SG&A costs in both the three and nine-month periods of 2026 reflected increased personnel-related costs and cash-settled share-based compensation.

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2026	2025	**2026**	2025
Cash flows from operating activities	**18,801**	20,065	**31,782**	41,475
Funds from operations[2]	**27,946**	21,341	**72,469**	75,297

	Sept. 30, '26	Dec. 31, '25
Working capital[2]	**128,552**	110,910
Net debt[2]	**40,129**	6,382

For the three-month period ended September 30, 2026, cash flows from operating activities decreased to $18.8 million compared to $20.1 million in the corresponding period of 2025 whereas for the nine-month period ended September 30, 2026, cash flows from operating activities declined to $31.8 million from $41.5 million in the same 2025-period. The decreases in both periods of 2026 were primarily attributable to a greater use of cash for non-cash working capital.

In the third quarter of 2026, funds from operations[2] increased to $27.9 million from $21.3 million in the 2025-quarter and slightly decreased in the nine-month period to $72.5 million in the 2026-period from $75.3 million in the comparable 2025-period. The movements in funds from operations during the 2026-periods reflected changes in the level of earnings.

[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.

As at September 30, 2026, working capital[(2)] increased to $128.6 million from $110.9 million at December 31, 2025 largely due to higher trade and other receivables at the end of the 2026-period. Net debt[(2)] as at September 30, 2026 increased to $40.1 million from $6.4 million at the end of 2025 primarily due to higher borrowings used to fund drilling and other equipment acquisitions, dividends, share-based payments, and working capital during the first three quarters of 2026.

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 potentially be used for shareholder returns, with optionality including the base dividend program, potential 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, 2026, dividend payments of $9.2 million were financed from the Corporation's cash on hand and cash flows from operating activities (2025 - $9.1 million). On September 15, 2026, the Corporation declared a dividend of $0.20 per share payable to shareholders of record on September 30, 2026. An aggregate of $9.2 million was paid to shareholders on October 15, 2026.

During the third quarter of 2026, 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 4,137,577 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 6, 2026. The NCIB commenced on August 18, 2026 and will terminate on August 17, 2027. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the previous and current NCIB, no common shares were purchased and cancelled by the Corporation in the nine-month period ended September 30, 2026. (2025 – 379,000 common shares were purchased for $3.3 million and cancelled). It

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is the Corporation's intention to continue the strategy of leveraging the NCIB when opportunistic as a tool to further reward shareholders under ROCS.

Investing Activities

Net cash used in investing activities for the three-month period ended September 30, 2026 was $4.9 million as compared to $12.1 million in the corresponding 2025-period. During the third quarter of 2026, the Corporation spent $15.3 million (2025 - $13.8 million) to grow the Corporation's fleet of drilling equipment, $4.5 million (2025 - $1.4 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment, and $3.3 million (2025 – $1.4 million) was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $8.2 million (2025 - $9.1 million), the Corporation's net capital expenditures[(2)] for the 2026-quarter were $14.9 million (2025 - $7.4 million).

The 2026-quarter capital expenditures comprised of:

- $15.2 million in RSS and Real-Time RSS Communications technologies;
- $4 million in MWD systems and spare components;
- $2.9 million in downhole performance drilling motors; and
- $1 million in machinery and equipment and other assets.

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

The change in non-cash working capital balances of $11.8 million (source of cash) for the three-month period ended September 30, 2026, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets (2025 - $4.7 million use of cash).

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Financing Activities

For the three-month period ended September 30, 2026, net cash used in financing activities was $15.7 million as compared to $11.3 million in the same 2025-period. In the 2026-quarter:

- $5.7 million net repayments were made on the Corporation's syndicated credit facility;
- dividends of $9.2 million were paid to shareholders;
- payments of $1 million were made towards lease liabilities; and
- 15,000 common shares were issued from treasury for proceeds of $0.1 million upon the exercise of share options.

Capital Resources

As of September 30, 2026, the Corporation had CAD $58.9 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $18.8 million. As at September 30, 2026, the Corporation had CAD $50.7 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, 2026, the Corporation was in compliance with all its financial covenants. Under the syndicated credit agreement, in any given quarter, 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. In October 2026, the Board approved an increase to the 2026 capital expenditure budget from $80 million to $88 million, which largely relates to growing the Corporation's RSS fleet including its Real-Time RSS Communications technologies. Of the total expenditures, approximately 60 percent 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. However, these replacement costs are typically covered by proceeds on disposition of drilling and other equipment.

For 2027, the Corporation's preliminary capital expenditure program is expected to total approximately $75 million, with roughly half allocated to growth initiatives and the remainder to maintenance capital. Growth expenditures are expected to be primarily directed toward expanding the Corporation's RSS, Velocity, and Atlas motor fleets. Maintenance capital is expected to support ongoing maintenance of fleet capacity and the replacement of equipment lost downhole during drilling operations.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary. However, if a sustained period of market uncertainty, threats of trade wars, geopolitical instability and financial market volatility persists in 2026 and 2027, 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, 2026, the Corporation has entered into commitments to purchase drilling and other equipment for $21.9 million (2025 - $13.9 million); equipment on order is largely expected to be delivered in the last quarter of 2026 and the first quarter of 2027.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at September 30, 2026 and 2025.

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, 2025.

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, 2025, except for estimates and judgements in relation to the fair value of its equity investments. In the second quarter of 2026, certain delays and obstacles in the project led to management determining that the valuation of investment in DEEP Earth Energy Production Corp should be reduced by $1.1 million. In the third quarter of 2026, further delays and challenges reaching project milestones, as well as uncertainty with regards to extended fundraising timelines led to management determining the valuation of DEEP should be reduced by a further $1.1 million, resulting in a remaining value of nil. Management assesses all available information at each report date and adjusts the fair value as appropriate. A loss was recorded through other comprehensive income for this decrease in valuation.

Effective September 1, 2025, the Corporation updated the estimated useful life of certain primary components of its motors as a result of the periodic review of its useful lives. Management determined that the useful life of this equipment should be updated from 8 years to 5 years. During the nine-month period ended September 30, 2026, an additional $7.7 million in depreciation expense was recorded to reflect this change in estimate.

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, 2025.

Accounting Standards Effective January 1, 2026

Management has assessed the impact of amendments to IFRS 9 and IFRS 7 - classification and measurement of financial instruments and determined there to be no material impact on the Corporation's accounting policies or required disclosures.

Forthcoming Standards Effective January 1, 2027

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements which will replace IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for the presentation of financial performance, including:

- specified categories for income and expenses in the statement of profit or loss;
- mandatory subtotals, including operating profit and profit before financing and income taxes;
- enhanced requirements related to aggregation and disaggregation of information; and
- disclosures of management-defined performance measures (MPMs).

IFRS 18 is effective for annual periods beginning on or after January 1, 2027. The standard will be applied retroactively, with certain transition provisions.

The Corporation has been assessing the impact of adopting IFRS 18 on the consolidated financial statements and is preparing for the transition. Based on the assessment completed to date, the adoption of IFRS 18 is expected to result primarily in changes to the presentation and disclosure of information within the financial statements. The Corporation continues to evaluate the impact on required disclosures and process changes necessary for implementation.

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 2025 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

The current US-Canada tariff environment remains highly dynamic and uncertain. Legislative or regulatory changes by the US and/or Canadian governments could adversely affect the Corporation's supply chain, operations, customers and industry activity, which may have a material effect on its business, financial condition and results of operations. The Corporation has recovered $1.5 million in tariff refunds included in direct costs during the nine-month period ended September 30, 2026. Ongoing trade policy uncertainty, including, but not limited to, the potential introduction of new tariffs including their duration and quantum, continuation of retaliatory measures, or changes arising from the USMCA review, among other things, may have a material adverse impact on the Corporation's business and results, given its significant US presence and reliance on the cross-border movement of goods and equipment.

Global Conflict Update

The ongoing geopolitical conflicts, particularly in the Middle East, Central America, and Eastern Europe may impact the availability and commodity price of oil and natural gas products for a prolonged period. The impact of these conflicts on the commodity price and North American industry activity levels are unknown and subject to a higher degree of uncertainty at this time. The business and activities of the Corporation are directly affected by fluctuations in the levels of exploration, development and production activity carried on by its customers and the Corporation makes activity assumptions based on commodity price assumptions that are used for planning purposes. Accordingly, if commodity prices and consequently industry activity levels significantly differ from these expectations, the Corporation's capital plans and financial results are likely to be affected.

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 filed annually 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, 2026 to September 30, 2026 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 3, 2026
Common shares outstanding, excluding shares held in trust	45,776,105
Common shares held in trust [(i)]	3,301
Total common shares outstanding	45,779,406
Dilutive securities:	
Options	833,335
Corporation shares – diluted	46,612,741

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

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Sep-26	Jun-26	Mar-26	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
Revenue	**204,181**	178,911	183,885	183,892	164,333	167,670	193,704	178,676
Earnings	**10,530**	10,966	8,936	17,569	8,461	8,522	20,159	14,098
Earnings per share - basic	**0.23**	0.24	0.20	0.39	0.19	0.19	0.44	0.31
Earnings per share - diluted	**0.23**	0.21	0.20	0.35	0.16	0.17	0.44	0.30
Dividends paid	**9,153**	9,101	18,148	9,036	9,092	9,112	9,102	9,183
Cash and cash equivalents	**18,809**	20,613	18,993	29,107	7,871	10,696	13,971	14,163
Loans and borrowings	**58,938**	64,514	62,391	35,489	42,406	41,739	26,145	16,827

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. In the third quarter of 2026, the Canadian industry horizontal and directional drilling activity, measured by drilling days, increased by 19 percent, while the US industry rig count rose by 10 percent compared with the same quarter in 2025. Revenue and earnings increased in the third quarter of 2026 relative to the corresponding 2025 period, reflecting strong drilling activity in both the US and Canada and record consolidated RSS activity. The increase in earnings was achieved despite higher depreciation and amortization expenses associated with the revised estimated useful life of certain primary motor components, greater personnel costs that were both market and activity driven, increased repair and equipment rental costs, and lower revenue from the sale of motor equipment and parts. Additionally, an increase in PHX Energy's share price also resulted in greater cash-settled share-based compensation expense during the third quarter of 2026.

In general, activity levels in western Canada can vary 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" can have 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 Canadian segment 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 69 percent of consolidated revenue in the three-month period ended September 30, 2026 (2025 – 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,	
	2026	2025	**2026**	2025
Earnings:	**10,530**	8,461	**30,432**	37,143
Add (deduct):				
Depreciation and amortization drilling and other equipment	**18,012**	16,346	**52,180**	41,528
Depreciation and amortization right-of-use asset	**669**	862	**2,344**	2,613
Provision for income taxes	**3,014**	1,237	**7,831**	10,666
Finance expense	**869**	866	**2,446**	2,175
Finance expense lease liability	**470**	471	**1,345**	1,460
Equity-settled share-based payments	**154**	117	**450**	357
Unrealized foreign exchange loss (gain)	**(55)**	(457)	**(456)**	3
Adjusted EBITDA	**33,663**	27,903	**96,572**	95,945

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) Adjusted EBITDA Excluding Cash-settled Share-based Compensation Expense

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

The following is a reconciliation of earnings to adjusted EBITDA excluding cash-settled share-based compensation expense:
(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2026	2025	**2026**	2025
Earnings:	**10,530**	8,461	**30,432**	37,143
Add (deduct):				
Depreciation and amortization drilling and other equipment	**18,012**	16,346	**52,180**	41,528
Depreciation and amortization right-of-use asset	**669**	862	**2,344**	2,613
Provision for income taxes	**3,014**	1,237	**7,831**	10,666
Finance expense	**869**	866	**2,446**	2,175
Finance expense lease liability	**470**	471	**1,345**	1,460
Equity-settled share-based payments	**154**	117	**450**	357
Unrealized foreign exchange loss (gain)	**(55)**	(457)	**(456)**	3
Cash-settled share-based compensation expense	**2,976**	772	**13,318**	4,621
Adjusted EBITDA excluding cash-settled share-based compensation expense	**36,639**	28,675	**109,890**	100,566

e) Adjusted EBITDA Excluding Cash-settled Share-based Compensation Expense Per Share - Diluted

Adjusted EBITDA excluding cash-settled share-based compensation expense 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 excluding cash-settled share-based compensation expense per share - dilutive is based on the adjusted EBITDA excluding cash-settled share-based compensation expense as reported in the table above divided by the diluted number of shares outstanding.

f) Adjusted EBITDA Excluding Cash-settled Share-based Compensation Expense as a Percentage of Revenue

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

g) 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,	
	2026	2025	**2026**	2025
Revenue	**204,181**	164,333	**566,977**	525,707
Direct costs	**175,233**	146,637	**484,423**	443,496
Gross profit	**28,948**	17,696	**82,554**	82,211
Depreciation & amortization drilling and other equipment (included in direct costs)	**18,012**	16,346	**52,180**	41,528
Depreciation & amortization right-of-use asset (included in direct costs)	**669**	862	**2,344**	2,613
	47,629	34,904	**137,078**	126,352
Gross profit as a percentage of revenue excluding depreciation & amortization	**23%**	21%	**24%**	24%

h) 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,	
	2026	2025	**2026**	2025
SG&A Costs	**17,795**	12,661	**59,886**	48,476
Deduct:				
Cash-settled share-based compensation (included in SG&A costs)	**2,976**	772	**13,318**	4,621
Equity-settled share-based compensation (included in SG&A costs)	**154**	117	**450**	357
	14,665	11,772	**46,118**	43,498
Revenue	**204,181**	164,333	**566,977**	525,707
SG&A costs excluding share-based compensation as a percentage of revenue	**7%**	7%	**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,	
	2026	2025	**2026**	2025
Cash flows from operating activities	**18,801**	20,065	**31,782**	41,475
Add:				
Changes in non-cash working capital	**7,404**	(1,308)	**34,077**	19,604
Interest paid	**708**	1,020	**1,906**	1,916
Income taxes paid	**1,033**	1,564	**4,704**	12,302
Funds from operations	**27,946**	21,341	**72,469**	75,297

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,	
	2026	2025	**2026**	2025
Cash flows from operating activities	**18,801**	20,065	**31,782**	41,475
Add (deduct):				
Changes in non-cash working capital	**7,404**	(1,308)	**34,077**	19,604
Interest paid	**708**	1,020	**1,906**	1,916
Income taxes paid	**1,033**	1,564	**4,704**	12,302
Cash payment on leases	**(1,432)**	(1,389)	**(4,310)**	(4,225)
	26,514	19,952	**68,159**	71,072
Proceeds on disposition of drilling equipment	**8,203**	9,127	**33,603**	30,932
Maintenance capital expenditures from asset retirements	**(4,464)**	(1,402)	**(21,394)**	(15,602)
Maintenance capital expenditures to replace downhole equipment losses	**(3,336)**	(1,363)	**(8,068)**	(4,613)
Net proceeds	**403**	6,362	**4,141**	10,717
Growth capital expenditures	**(15,274)**	(13,760)	**(37,172)**	(42,597)
Excess cash flow	**11,643**	12,554	**35,128**	39,192

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, 2026	December 31, 2025
Current assets	**274,569**	236,268
Deduct:		
Current liabilities	**(146,017)**	(125,358)
Working capital	**128,552**	110,910

d) Net Debt

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, 2026	December 31, 2025
Loans and borrowings	**58,938**	35,489
Deduct:		
Cash	**(18,809)**	(29,107)
Net debt	**40,129**	6,382

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,	
	2026	2025	**2026**	2025
Growth capital expenditures	**15,274**	13,760	**37,172**	42,597
Maintenance capital expenditures from asset retirements	**4,464**	1,402	**21,394**	15,602
Maintenance capital expenditures to replace downhole equipment losses	**3,336**	1,363	**8,068**	4,613
Total capital expenditures	**23,074**	16,525	**66,634**	62,812
Deduct:				
Proceeds on disposition of drilling equipment	**(8,203)**	(9,127)	**(33,603)**	(30,932)
Net capital expenditures	**14,871**	7,398	**33,031**	31,880

f) Remaining Balance under ROCS Target

Remaining balance under ROCS target is comprised of the total of 70 percent of excess cash flow as defined above and remaining balance under ROCS target carried forward from the previous year, 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 balance under ROCS target 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,	
	2026	2025	**2026**	2025
Excess cash flow	**11,643**	12,554	**35,128**	39,192
Targeted 70% of excess cash flow under ROCS	**8,150**	8,788	**24,590**	27,434
Add:				
Remaining balance under ROCS target carried forward from the previous year	**-**	-	**8,691**	-
	8,150	8,788	**33,281**	27,434
Deduct:				
Dividends paid to shareholders	**(9,153)**	(9,092)	**(36,402)**	(27,306)
Repurchase of shares under the NCIB	**-**	(2,339)	**-**	(3,250)
Remaining balance under ROCS target	**(1,003)**	(2,643)	**(3,121)**	(3,122)

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.

"Dividends paid as a percentage of excess cash flows" is comprised of dividends paid, as determined in accordance with IFRS, divided by the excess cash flow as reported in the table above.

"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 was 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 Corporation's commitment to shareholder returns under ROCS, which targets up to 70 percent of annual excess cash flow for shareholder returns through the dividend program, potential share repurchases and potential special dividends.
- The expectation that fourth-quarter excess cash flow will remain consistent with third-quarter levels, based on projected capital expenditures for the remainder of the year, and that the Corporation will remain over-distributed relative to its ROCS target for 2026.
- The Corporation's intention to continue leveraging the NCIB opportunistically to reward shareholders under ROCS;
- The expectation that equipment on order under will largely be delivered in the last quarter of 2026 and the first quarter of 2027.
- The anticipated 2026 capital expenditure budget of $88 million, with approximately 60 percent allocated to growth and the remainder to maintaining fleet capacity and replacing equipment lost downhole.
- The preliminary 2027 capital expenditure program, expected to total approximately $75 million, with roughly half allocated to growth and the remainder to maintenance. Growth expenditures are expected to focus on expanding the RSS, Velocity and Atlas motor fleets.
- The potential for the allocation to replacement of equipment lost downhole to increase if more downhole losses occur during the year.
- The expectation that planned capital expenditures will 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 for sustained market uncertainty, threats of trade wars, geopolitical instability and financial market volatility in 2026 and 2027 to negatively affect activity levels, cash flows and access to credit, leading to reductions in planned expenditures where possible; conversely, future growth opportunities could lead the Corporation to expand planned capital expenditures.
- The Board's ongoing review of the dividend program and ROCS in light of financial performance, forecast activity levels and industry outlook. Future quarterly dividends remain subject to Board approval and declaration, and may be reduced or suspended if budgeted cash flow from operating activities is not realized.
- The Corporation's continued pursuit of growth in US motor rentals by broadening its customer base, supported by investment in personnel, equipment and operational resources, and its identification of motor rentals as a key strategic growth area.
- Management's pursuit of appropriate customer pricing increases and its evaluation of alternative suppliers and negotiation of pricing concessions to mitigate cost pressures.
- The potential adverse effects of US or Canadian legislative or regulatory changes, new tariffs and their duration and quantum, retaliatory measures and changes arising from the USMCA review on the Corporation's supply chain, operations, customers, industry activity, business, financial condition and results of operations.
- The potential for ongoing conflicts, particularly in the Middle East, Central America and Eastern Europe, to affect oil and natural gas availability and commodity prices for a prolonged period, and for departures from commodity price and industry activity assumptions to affect the Corporation's capital plans and financial results.

The above are stated under the headings: "Financial Results", "Dividends and ROCS", "Normal Course Issuer Bid", "Capital Spending", "Segmented Information", "Liquidity", "Capital Resources" and "Business Risk Factors". In addition, all information contained under the headings "Dividends and ROCS", "Outlook", Cash Flow, Dividends, and ROCS", and "Business Risk Factors" 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 2026, 2027 and beyond; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation; the duration and impact of tariffs that are currently in effect on goods exported from or imported into Canada, and that other than the tariffs that are currently in effect, neither the US nor Canada (i) increases the rate or scope of such tariffs, reenacts tariffs that are currently suspended, or imposes new tariffs, on the import of goods from one country to the other, or (ii) imposes any other form of tax, restriction, or prohibition on the import or export of products from one country to the other; 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, US-Venezuela 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 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, dividends, and ROCS, which are subject to change; and market conditions and future oil and natural gas prices and resulting demand for related services. 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.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements 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 information or statements including, without limitation: volatility of commodity prices; adverse economic conditions; political uncertainty; the risk that (i) the tariffs that are currently in effect on goods exported from or imported into Canada continue in effect for an extended period of time, the tariffs that have been threatened are implemented, that tariffs that are currently suspended are reactivated, the rate or scope of tariffs are increased, or new tariffs are imposed, (ii) the US and/or Canada imposes any other form of tax, restriction, or prohibition on the import or export of products from one country to the other, and (iii) the tariffs imposed or threatened to be imposed by the US on other countries and retaliatory tariffs imposed or threatened to be imposed by other countries on the US, will trigger a broader global trade war which could have a material adverse effect on the Canadian, US, and global economies, and by extension the Canadian crude oil and natural gas industry and the Corporation, including by decreasing demand for (and the price of) crude oil and natural gas, disrupting supply chains, increasing costs, causing volatility in global financial markets, and limiting access to financing; the impacts of the ongoing Middle-East conflicts, Russia-Ukraine war and geopolitical developments in Venezuela (and any associated sanctions) on the global economy and commodity prices; compliance with environmental regulations; risks relating to climate change, including transition and physical risks; PHX Energy's ability to recruit and retain a skilled workforce and key personnel; risks relating to a changing investor sentiment; asset and customer concentration; risks relating to information technology systems and cyber security; liquidity; inflation, cost management, and interest rates; third-party credit risks; variations in foreign exchange rates; the impact of competitors; risks related to potential or ongoing litigation; lack of adequate insurance coverage; limited, unfavorable or a lack of access to capital markets; unanticipated operating results; increased debt levels or debt service requirements; increased costs; and certain other risks detailed in PHX Energy's public disclosure documents. Readers should also carefully consider the risks discussed in the section entitled "Business Risk Factors" contained within Corporation's most recently filed Annual Information Form ("AIF") on SEDAR+ at www.sedarplus.ca.

PHX Energy's future shareholder distributions, including but not limited to the payment of dividends and NCIB purchases, if any, and the level thereof is uncertain. Any decision to pay dividends on PHX Energy's shares (including the actual amount, the declaration date, the record date, and the payment date in connection therewith) will be subject to the discretion of the Board and may depend on a variety of factors, including, without limitation, PHX Energy's business performance, financial condition, financial requirements, growth plans, expected capital requirements and other conditions existing at such future time including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on PHX Energy under applicable corporate law. Further, the actual amount, the declaration date, the record date, and the payment date of any dividend are subject to the discretion of the Board. There can be no assurance that PHX Energy will pay dividends or make additional purchases under its NCIB in the future.

The forward-looking information in this MD&A also includes financial outlooks and other related forward-looking information relating to PHX Energy, including, but not limited to the expectations of PHX Energy regarding capital expenditures. The internal projections, expectations, or beliefs are based on the 2026 capital budget, which is subject to change in light of ongoing results, prevailing economic conditions and industry conditions and regulations. These financial outlook and other related forward-looking statements are also subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted, and as such, undue reliance should not be placed on financial outlook and/or forward-looking statements.

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, 2026**	December 31, 2025
ASSETS		
Current assets:		
Cash	**$ 18,809**	$ 29,107
Trade and other receivables	**183,148**	138,640
Inventories	**60,759**	56,261
Prepaid expenses	**3,654**	2,970
Current tax assets	**8,199**	9,290
Total current assets	**274,569**	236,268
Non-current assets:		
Drilling and other long-term assets (Note 6)	**177,462**	165,001
Right-of-use assets	**19,044**	21,411
Intangible assets	**17,022**	16,304
Other long-term assets	**3,112**	1,253
Deferred tax assets	**1,590**	756
Investments	**-**	2,171
Total non-current assets	**218,230**	206,896
Total assets	**$ 492,799**	$ 443,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	**$ 132,089**	$ 110,896
Dividends payable (Note 8d)	**9,156**	9,074
Current lease liabilities	**4,204**	4,050
Current tax liability	**568**	1,338
Total current liabilities	**146,017**	125,358
Non-current liabilities:		
Lease liabilities	**24,274**	27,393
Loans and borrowings (Note 7)	**58,938**	35,489
Deferred tax liabilities	**28,536**	24,317
Other (Note 8c)	**2,696**	1,564
Total non-current liabilities	**114,444**	88,763
Equity:		
Share capital (Note 8a)	**205,589**	201,722
Contributed surplus	**7,014**	7,326
Deficit	**(15,946)**	(9,894)
Accumulated other comprehensive income (AOCI)	**35,681**	29,889
Total equity	**232,338**	229,043
Total liabilities and equity	**$ 492,799**	$ 443,164

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,	
	2026	2025	**2026**	2025
Revenue (Note 4)	**$ 204,181**	$ 164,333	**$ 566,977**	$ 525,707
Direct costs	**175,233**	146,637	**484,423**	443,496
Gross profit	**28,948**	17,696	**82,554**	82,211
Expenses:				
Selling, general and administrative expenses	**17,795**	12,661	**59,886**	48,476
Research and development expenses	**1,879**	1,743	**5,626**	5,131
Finance expense	**869**	866	**2,446**	2,175
Finance expense lease liabilities	**470**	471	**1,345**	1,460
Other income (Note 9)	**(5,609)**	(7,743)	**(25,012)**	(22,840)
	15,404	7,998	**44,291**	34,402
Earnings before income taxes	**13,544**	9,698	**38,263**	47,809
Provision for income taxes				
Current	**765**	(6,226)	**5,265**	3,940
Deferred	**2,249**	7,463	**2,566**	6,726
	3,014	1,237	**7,831**	10,666
Net earnings	**10,530**	8,461	**30,432**	37,143
Other comprehensive income				
Foreign currency translation, net of tax	**702**	4,127	**7,963**	(6,224)
Equity investment loss through AOCI (Note 10)	**(1,085)**	-	**(2,171)**	-
Total comprehensive earnings	**$ 10,147**	$ 12,588	**$ 36,224**	$ 30,919
Earnings per share – basic	**$ 0.23**	$ 0.19	**$ 0.67**	$ 0.82
Earnings per share – diluted	**$ 0.23**	$ 0.16	**$ 0.67**	$ 0.78

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	Share Capital		Contributed	Accumulated Other Comprehensive		
September 30, 2026	**Number**	**Amount ($)**	**Surplus**	**Income**	**Deficit**	**Total Equity**
Balance, December 31, 2025	**45,367,773**	**$ 201,722**	**$ 7,326**	**$ 29,889**	**$ (9,894)**	**$ 229,043**
Issuance of share capital on exercise of options	**408,332**	**3,105**	**-**	**-**	**-**	**3,105**
Share-based payments	**-**	**-**	**450**	**-**	**-**	**450**
Fair value of options exercised	**-**	**762**	**(762)**	**-**	**-**	**-**
Net earnings	**-**	**-**	**-**	**-**	**30,432**	**30,432**
Equity investment loss through AOCI	**-**	**-**	**-**	**(2,171)**	**-**	**(2,171)**
Foreign currency translation, net of tax	**-**	**-**	**-**	**7,963**	**-**	**7,963**
Dividends	**-**	**-**	**-**	**-**	**(36,484)**	**(36,484)**
Balance, September 30, 2026	**45,776,105**	**$ 205,589**	**$ 7,014**	**$ 35,681**	**$ (15,946)**	**$ 232,338**

Nine-month period ended	Share Capital			Accumulated Other Comprehensive		
September 30, 2025	Number	Amount ($)	Contributed Surplus	Income	Deficit	Total Equity
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

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,	
	2026	2025	**2026**	2025
Cash flows from operating activities:				
Earnings	**$ 10,530**	$ 8,461	**$ 30,432**	$ 37,143
Adjustments for:				
Depreciation and amortization	**18,012**	16,346	**52,180**	41,528
Depreciation and amortization right-of-use asset	**669**	862	**2,344**	2,613
Provision for income taxes	**3,014**	1,237	**7,831**	10,666
Unrealized foreign exchange loss (gain)	**(55)**	(457)	**(456)**	3
Net gain on disposition of drilling equipment (Note 6a)	**(5,697)**	(6,668)	**(24,249)**	(22,180)
Equity-settled share-based payments	**154**	117	**450**	357
Finance expense	**869**	866	**2,446**	2,175
Finance expense lease liabilities	**470**	471	**1,345**	1,460
Provision for inventory obsolescence	**450**	577	**1,608**	2,992
Recovery of bad debts	**-**	-	**(117)**	-
Interest paid on lease liabilities	**(470)**	(471)	**(1,345)**	(1,460)
Interest paid	**(708)**	(1,020)	**(1,906)**	(1,916)
Income taxes paid	**(1,033)**	(1,564)	**(4,704)**	(12,302)
Change in non-cash working capital	**(7,404)**	1,308	**(34,077)**	(19,604)
Net cash from operating activities	**18,801**	20,065	**31,782**	41,475
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**8,203**	9,127	**33,603**	30,932
Acquisition of drilling and other equipment (Note 6a)	**(23,074)**	(16,525)	**(66,634)**	(62,812)
Acquisition of intangible assets	**(1,820)**	-	**(3,185)**	(4,699)
Change in non-cash working capital	**11,781**	(4,656)	**6,644**	(3,899)
Net cash used in investing activities	**(4,910)**	(12,054)	**(29,572)**	(40,478)
Cash flows from financing activities:				
Net proceeds from (repayment of) loans and borrowings	**(5,693)**	1,078	**23,139**	26,021
Proceeds from exercise of options	**92**	-	**3,105**	180
Dividends paid to shareholders	**(9,153)**	(9,092)	**(36,402)**	(27,306)
Payments of lease liability	**(962)**	(918)	**(2,965)**	(2,765)
Repurchase of shares under the NCIB	**-**	(2,339)	**-**	(3,250)
Net cash used in financing activities	**(15,716)**	(11,271)	**(13,123)**	(7,120)
Net increase (decrease) in cash	**(1,825)**	(3,260)	**(10,913)**	(6,123)
Cash, beginning of period	**20,613**	10,696	**29,107**	14,163
Effect of movements in exchange rates on cash held	**21**	435	**615**	(169)
Cash, end of period	**$ 18,809**	$ 7,871	**$ 18,809**	$ 7,871

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, 2026 and 2025

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, 2025.

The condensed consolidated interim financial statements were authorized by the Board of Directors (the "Board") on November 3, 2026.

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, 2025, except for estimates and judgements in relation to the fair value of its equity investments (see Note 10).

Effective September 1, 2025, the Corporation updated the estimated useful life of certain primary components of its motors as a result of the periodic review of its useful lives. Management determined that the useful life of this equipment should be updated from 8 years to 5 years. During the nine-month period ended September 30, 2026, an additional $7.7 million in depreciation expense was recorded to reflect this change in estimate.

Global Trade

The current US-Canada tariff environment remains highly dynamic and uncertain. Legislative or regulatory changes by the US and/or Canadian governments could adversely affect the Corporation's supply chain, operations, customers and industry activity, which may have a material effect on its business, financial condition and results of operations. The Corporation has recovered $1.5 million in tariff refunds included in direct costs during the nine-month period ended September 30, 2026. Ongoing trade policy uncertainty, including, but not limited to, the potential introduction of new tariffs including their duration and quantum, continuation of retaliatory measures, or changes arising from the USMCA review, among other things, may have a material adverse impact on the Corporation's business and results, given its significant US presence and reliance on the cross-border movement of goods and equipment.

Global Conflict

The ongoing geopolitical conflicts, particularly in the Middle East, Central America, and Eastern Europe may impact the availability and commodity price of oil and natural gas products for a prolonged period. The impact of these conflicts on the commodity price and North American industry activity levels are unknown and subject to a higher degree of uncertainty at this time. The business and activities of the Corporation are directly affected by fluctuations in the levels of exploration, development and production activity carried on by its customers and the Corporation makes activity assumptions based on commodity price assumptions that are used for planning purposes.

Accordingly, if commodity prices and consequently industry activity levels significantly differ from these expectations, the Corporation's capital plans and financial results are likely to be affected.

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, 2025.

Accounting Standards Effective January 1, 2026

Management has assessed the impact of amendments to IFRS 9 and IFRS 7 - classification and measurement of financial instruments and determined there to be no material impact on the Corporation's accounting policies or required disclosures.

Forthcoming Standards Effective January 1, 2027

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements which will replace IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for the presentation of financial performance, including:

- specified categories for income and expenses in the statement of profit or loss;
- mandatory subtotals, including operating profit and profit before financing and income taxes;
- enhanced requirements related to aggregation and disaggregation of information; and
- disclosures of management-defined performance measures (MPMs).

IFRS 18 is effective for annual periods beginning on or after January 1, 2027. The standard will be applied retroactively, with certain transition provisions.

The Corporation has been assessing the impact of adopting IFRS 18 on the consolidated financial statements and is preparing for the transition. Based on the assessment completed to date, the adoption of IFRS 18 is expected to result primarily in changes to the presentation and disclosure of information within the financial statements. The Corporation continues to evaluate the impact on required disclosures and process changes necessary for implementation.

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,	**2026**	2025 *Adjusted*(i)	**2026**	2025	**2026**	2025 *Adjusted*(i)
Directional drilling services	**60,492**	42,964	**128,462**	108,538	**188,954**	151,502
Motor rental	**2,028**	1,140	**12,646**	11,393	**14,674**	12,533
Sale of motor equipment and parts	**-**	-	**553**	298	**553**	298
Total revenue	**62,520**	44,104	**141,661**	120,229	**204,181**	164,333

	Canada		United States		Total	
Nine-month periods ended September 30,	**2026**	2025 *Adjusted*(i)	**2026**	2025	**2026**	2025 *Adjusted*(i)
Directional drilling services	**166,336**	136,364	**356,147**	346,179	**522,483**	482,543
Motor rental	**5,402**	4,893	**37,777**	34,368	**43,179**	39,261
Sale of motor equipment and parts	**-**	-	**1,315**	3,903	**1,315**	3,903
Total revenue	**171,738**	141,257	**395,239**	384,450	**566,977**	525,707

(i) There was a prior period immaterial misclassification of certain motor rental revenue as directional drilling revenue within the Canadian operating segment. Comparative amounts have been adjusted. For the three-month period ended September 30, 2025, $0.6 million was reclassified from directional drilling services to motor rental. For the nine-month period ended September 30, 2025, $2.8 million was reclassified from directional drilling services to motor rental.

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,	**2026**	2025	**2026**	2025	**2026**	2025	**2026**	2025
Revenue	**62,520**	44,104	**141,661**	120,229	**-**	-	**204,181**	164,333
Direct costs	**52,384**	38,670	**122,849**	107,967	**-**	-	**175,233**	146,637
Gross profit	**10,136**	5,434	**18,812**	12,262	**-**	-	**28,948**	17,696
Expenses:								
Selling, general and administrative expenses	**4,659**	3,265	**7,852**	7,237	**5,284**	2,159	**17,795**	12,661
Research and development expenses	**-**	-	**-**	-	**1,879**	1,743	**1,879**	1,743
Finance expense	**-**	-	**-**	-	**869**	866	**869**	866
Finance expense lease liability	**269**	283	**132**	169	**69**	19	**470**	471
Other income	**(1,074)**	(1,327)	**(4,535)**	(6,416)	**-**	-	**(5,609)**	(7,743)
Reportable segment profit (loss) before income taxes	**6,282**	3,213	**15,363**	11,272	**(8,101)**	(4,787)	**13,544**	9,698

	Canada		United States		Corporate		Total	
Nine-month periods ended September 30,	**2026**	2025	**2026**	2025	**2026**	2025	**2026**	2025
Revenue	**171,738**	141,257	**395,239**	384,450	**-**	-	**566,977**	525,707
Direct costs	**143,127**	118,531	**341,296**	324,965	**-**	-	**484,423**	443,496
Gross profit	**28,611**	22,726	**53,943**	59,485	**-**	-	**82,554**	82,211
Expenses:								
Selling, general and administrative expenses	**14,301**	11,051	**22,784**	22,700	**22,801**	14,725	**59,886**	48,476
Research and development expenses	**-**	-	**-**	-	**5,626**	5,131	**5,626**	5,131
Finance expense	**-**	-	**-**	-	**2,446**	2,175	**2,446**	2,175
Finance expense lease liability	**819**	859	**425**	543	**101**	58	**1,345**	1,460
Other income	**(4,965)**	(4,686)	**(20,047)**	(18,154)	**-**	-	**(25,012)**	(22,840)
Reportable segment profit (loss) before income taxes	**18,456**	15,502	**50,781**	54,396	**(30,974)**	(22,089)	**38,263**	47,809

(Stated in thousands of dollars)

	Canada		United States		Corporate		Total	
As at September 30,	**2026**	2025	**2026**	2025	**2026**	2025	**2026**	2025
Acquisition of drilling and other equipment	**21,523**	21,749	**45,111**	41,063	**-**	-	**66,634**	62,812
Segment non-current assets	**70,743**	71,334	**145,895**	145,698	**1,592**	2,322	**218,230**	219,354
Total Assets	**153,450**	134,594	**335,813**	297,680	**3,536**	2,736	**492,799**	435,010

6. Drilling and Other Long-Term Assets

a) Acquisitions and Disposals

During the nine-month period ended September 30, 2026, the Corporation acquired assets with a cost of $66.6 million (2025 - $62.8 million).

Assets with a carrying amount of $9.4 million (2025 - $8.8 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $24.2 million (2025 - $22.2 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, 2026, the Corporation has entered into commitments to purchase drilling and other equipment for $21.9 million (2025 - $13.9 million); equipment on order is largely expected to be delivered in the last quarter of 2026 and the first quarter of 2027.

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, 2026**	Currency	Carrying Amount at December 31, 2025
Operating Facility	CAD	15,000	December 12, 2028	CAD	**4,274**	CAD	-
Syndicated Facility	CAD	95,000	December 12, 2028	CAD	**54,664**	CAD	35,489
Total CAD Facility	CAD	**110,000**		CAD	**58,938**	CAD	35,489
US Operating Facility	USD	25,000	December 12, 2028	USD	-	USD	-
Total USD Facility	USD	**25,000**		USD	**-**	USD	-

The carrying amount of loans and borrowings is presented net of borrowing costs amounting to $0.3 million at September 30, 2026. Under the syndicated credit agreement, the Corporation is required to maintain certain financial covenants. As at September 30, 2026 the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at September 30, 2026**
Debt to covenant EBITDA[(i)]	<3.0x	**0.46**
Interest coverage ratio[(i)]	>3.0x	**40.01**

(i) Definitions for these terms are included in the credit agreement filed on SEDAR

Under the syndicated credit agreement, in any given quarter, 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.

As at September 30, 2026 the Corporation has CAD $50.7 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, 2025	45,506,773	$	203,841
Common shares repurchased and cancelled	(379,000)		(3,250)
Issued shares pursuant to share option plan	240,000		1,131
Balance as at December 31, 2025	45,367,773	$	201,722
Issued shares pursuant to share option plan	**408,332**		**3,867**
Balance as at September 30, 2026	**45,776,105**	**$**	**205,589**

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 2026

Number	Exercise Price	Expiration Date	Fair Value
150,000	$ 12.01	March 5, 2031	$ 2.020
150,000	11.90	March 5, 2031	1.905
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 2026 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 35 percent, forfeiture rate of nil, dividend yield of 6.57 percent and a risk-free interest rate of 2.67 percent (2025 – expected share price volatility 38 percent, forfeiture rate of nil, dividend yield of 9.37 percent and a risk-free interest rate of 2.58 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, 2026 the Corporation recognized a total compensation expense of $0.2 million and $0.5 million, respectively (2025 - $0.1 million and $0.4 million), for share options granted between 2024 and 2026 (2025 – share options granted between 2023 and 2025).

A summary of the status of the plan as at September 30, 2026 is presented below:

	September 30, 2026		December 31, 2025	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**941,667**	**$ 8.23**	881,667	$ 6.75
Granted	**300,000**	**11.96**	300,000	8.62
Exercised	**(408,332)**	**7.51**	(240,000)	3.30
Outstanding, end of period	**833,335**	**$ 9.92**	941,667	$ 8.23
Options exercisable, end of period	**533,328**	**$ 9.40**	649,994	$ 7.97

The weighted-average share price at the date of exercise for share options exercised for the nine-month period ended September 30, 2026 was $12.38 (2025 - $8.68).

The range of exercise prices for options outstanding at September 30, 2026 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	1.44 yrs	$ 7.83	50,000	$ 7.83
116,667	2.44 yrs	9.17	116,667	9.17
91,667	2.44 yrs	9.23	91,667	9.23
150,000	3.43 yrs	8.71	99,999	8.71
125,001	3.43 yrs	8.53	74,999	8.53
150,000	4.43 yrs	12.01	49,998	12.01
150,000	4.43 yrs	11.90	49,998	11.90
833,335	3.42 yrs	$ 9.92	533,328	$ 9.40

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, 2026, 310,426 PAs were granted (2025 – 297,130), 321,983 PAs settled at a weighted-average payout multiplier of 118 percent (2025 – 617,693 PAs settled at a weighted-average payout multiplier of 141 percent), and no PAs were forfeited (2025 – nil). As at September 30, 2026, 656,334 PAs were outstanding (2025 – 603,919).

The Corporation recorded a total of $3 million and $13.3 million of compensation expense relating to these plans for the three and nine-month periods ended September 30, 2026 (2025 – $0.8 million and $4.6 million). The expense is

included in selling, general and administrative expense and has a corresponding liability of $6.2 million in trade and other payables for the current portion and $2.7 million included in other liabilities for the long-term portion which had vesting dates after September 30, 2027 (2025 - $4.4 million and $1.6 million). There were 1,420,048 RAs and PAs outstanding as at September 30, 2026 (2025 – 1,501,286). The closing share price on September 30, 2026 of PHX stock was $11.85.

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

	September 30, 2026	December 31, 2025
RAs and PAs outstanding January 1,	**1,546,632**	1,599,094
Granted	**594,530**	831,661
Settled	**(705,242)**	(862,042)
Forfeited	**(15,872)**	(22,081)
RAs and PAs outstanding, end of period	**1,420,048**	1,546,632

d) Dividends

On September 15, 2026, the Corporation declared a regular quarterly dividend of $0.20 per share or $9.2 million, payable on October 15, 2026, to shareholders of record on September 30, 2026.

e) Normal Course Issuer Bid ("NCIB")

During the third quarter of 2026, 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 4,137,577 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 6, 2026. The NCIB commenced on August 18, 2026 and will terminate on August 17, 2027. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the current NCIB, no common shares were purchased and cancelled by the Corporation in the nine-month period ended September 30, 2026. (2025 – 379,000 common shares were purchased for $3.3 million and cancelled).

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2026	2025	**2026**	2025
Net gain on disposition of drilling equipment (Note 6a)	**$ 5,697**	$ 6,668	**$ 24,249**	$ 22,180
Miscellaneous other income	**70**	617	**418**	618
Foreign exchange gain (loss)	**(158)**	458	**228**	42
Recovery of bad debts	**-**	-	**117**	-
Total other income	**$ 5,609**	$ 7,743	**$ 25,012**	$ 22,840

10. Fair Values of Financial Instruments

The Corporation has designated its trade and other payables, dividends payable, and loans and borrowings as non-derivative financial liabilities carried at amortized cost. Cash and 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.

In the second quarter of 2026, certain delays and challenges in the project led to management determining that the valuation of investment in DEEP Earth Energy Production Corp ("DEEP") should be reduced by $1.1 million. In the third quarter of 2026, further delays and challenges reaching project milestones, as well as uncertainty with regards to extended fundraising timelines led to management determining that the valuation of DEEP should be reduced by a further $1.1 million, resulting in a remaining value of nil. Management assesses all available information at each report date and adjusts the fair value as appropriate. A loss was recorded through other comprehensive income for this decrease in valuation.

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