



2023 ESG Update

Letter from Our President

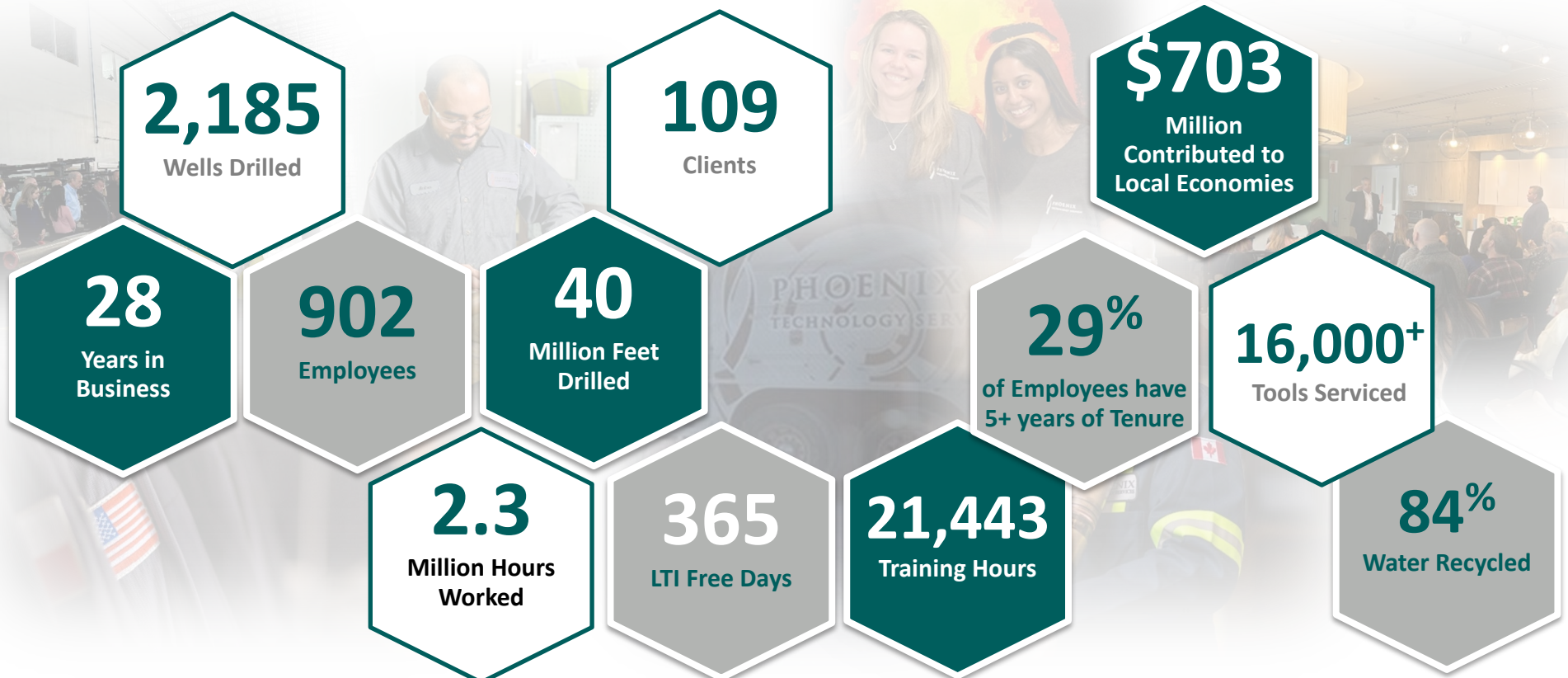
2023 was a record financial year for PHX Energy and we are pleased to share with our shareholders, employees, clients, and other stakeholders how we upheld our sustainability commitment during this exciting year. Our 2023 ESG & Sustainability Update provides highlights from the year, progress on our goals and targets, and our performance data.

In 2023, we are most proud of our people and the commitment they showed to achieve the growth we experienced. In a year when we produced record revenue and profits and expanded our business and technology offering, their unwavering focus on our values of integrity, customer service, teamwork, continuous improvement and most importantly safety remained at the forefront. The

highlights below demonstrate the impact of their dedication, and we truly believe we have the best team in the industry.

Our sustainability and ESG program is an ongoing journey and we will continue to evolve our organization with the progressing landscape, both based on the regulatory environment and stakeholders views. Climate change, diversity, equity and inclusion, cyber security and geopolitical events remain central on broader and macro levels, and we recognize that we all have multiple roles to play individually and collectively in addressing these.

We are optimistic for the future demand for reliable, responsibly produced energy offered by the North American industry and our role in meeting this demand.



2023 Highlights

- For the third consecutive year we achieved silver status on our EcoVadis Assessment improving our ranking from the 80th percentile in our first year to the 92nd in 2023.
- We continued to measure our GHG emissions, and monitored our operations to ensure we are acting on opportunities to create more energy efficient processes and reduction strategies. In 2023, our GHG per operating day stayed consistent with the prior year even with our full service operating days increasing 3%, and additional operational and facility demands due to our expanding business lines.
- In 2023, our environmental committee organized a company wide Earth Day event, where the Committee shared our environmental impact and initiatives with staff at our Canadian and US locations.
- We are proud to state that we have not had any environmental reportable incidents in any of the jurisdictions we operate.
- As a vertically integrated provider, we manufacture and service many of our own parts for our equipment, and in 2023 we recycled 1.6 million pounds of metal related to this process.
- We continued to provide and support remote drilling operations, which reduces our largest source of emissions and our greatest safety risk, driving. In 2023 over 95 percent of wells drilled by our Canadian operations utilized this service.
- Amidst all the activity required to produce record results, our unwavering focus on safety did not falter amidst the increased operational demands. We are proud to have maintained a TRIR well below the industry norm and to not have had any lost-time incidents in the year.
- Our Community team continued to organize various volunteer opportunities for our staff to give back the community, which included blood donations, preparing meals at shelters, and community clean up.
- We held our third annual companywide food drive in December in which our employees at all levels of the organization donated a total of over \$14,000 and 1,500lbs of food to local food banks. PHX Energy then doubled this donation, as part of our commitment to giving back.
- We continued to offer our employees' opportunities for two-way communication, including through our annual safety and employee engagement surveys that were distributed early in the 2024 for reflection on 2023. We use this feedback to gauge our performance and for continuous improvement.
- In line with our industry's commitment to creating meaningful and fair engagement with indigenous peoples and our impact on their lands, we once again acknowledged truth and reconciliation day in Canada, with increased our employee participation in 2023.
- In October, we ran a cyber security month campaign with the goal of creating heightened awareness on how our employees can actively participate in protecting the Corporation from cyber attacks. This was a reminder that although we have sophisticated technology solutions in place, our people play just as an important role in our digital defence system.
- We launched a digitization strategy in 2023, with the goal of creating efficiencies through out our organization.
- In 2023, through employee wages and benefits, dividends and goods and services purchase, we contributed approximately \$709 million to the local economies in which we operate. We are proud to be able to contribute to the health of the communities that we operate in from the broader perspective.

About PHX

Established in 1995, today we are the largest independent supplier of directional drilling services in the North American oil and gas land market and strategic international locations. Additionally, we are actively pursuing opportunities in the renewable energy sectors that require drilling services. Our position as a leader in our sector has resulted from the development of a proprietary fleet of premium downhole equipment, technical expertise and exceptional customer service.

To sustain our competitive advantages, we are vertically integrated to control the full value chain of our products and services. We design, develop, engineer, manufacture, service and repair our own fleet of equipment and implement strict QA/QC protocols and continuous improvement initiatives. This approach allows us to monitor all aspects of our operations to assess if they are being executed in a sustainable manner and identify areas we can address.

What We Do

Directional drilling is the process of steering the well path during the drilling operation towards an intended target and doing so in a manner that increases the overall efficiency and speed of the operation. As a directional drilling provider, we calculate how to drill a well to an intended target and execute this plan. We supply advanced equipment and highly skilled personnel at the well site as well as technical expertise and support.

There are many advantages that are created by directional drilling versus drilling a well strictly vertical and as a result nearly all wells drilled in North America use directional drilling. The advantages that have led to directional and horizontal wells being the norm are:

- Reduced environmental impact with fewer wells being drilled and fewer rig locations needed.
- Greater productivity as a horizontal well is drilled through the formation, rather than into one point of the formation.
- Stricter legal spacing requirements.
- Better economics of drilling multiple wells from one surface location (pad drilling).
- Requirement for better reservoir engineering modeling.



Materiality

Our initial internal materiality assesment was conducted in 2021 to identify and prioritize issues based on the importance to our stakeholders and their impact to our business and community. In the following years we at least annually re-evaluate this assesment, including in preparing this Update, to ensure the material ESG topics remain relevant and to identify any topics that may have emerged since the last assesment. Additionally, we cross-referenced issues identified by SASB, TCFD, and industry peers. As part of this process in 2023 we implemented a Modern Slavery Policy as the result of our review of human rights issues and governance. We do not believe that Modern slavery presents a material risk in our operations at this time, and there were no other material changes identified since our 2022 ESG Report.

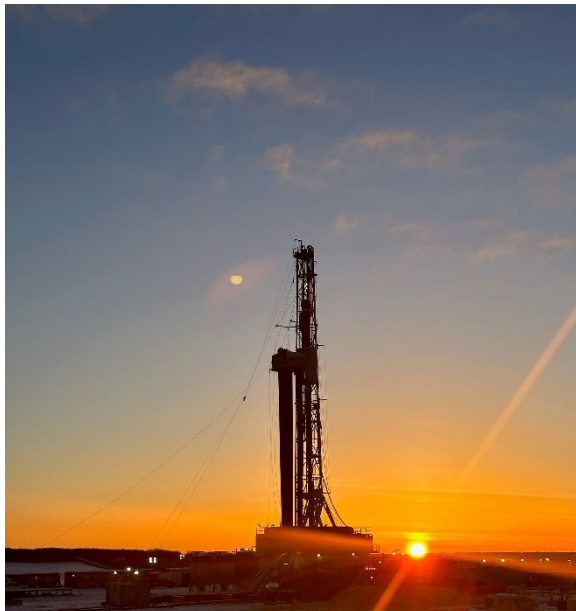


Photo credit: Daniil Fiodorov, CDN MWD Coordinator

Reporting Standards

We continue to align our ESG program and disclosures with SASB and TCFD. We produced a comprehensive ESG Report in 2022 which aligned with these standards and provides a detailed overview of all topics we deemed material. Our 2023 Update is intended to supplement this disclosure with our performance and initiatives during the most recent year. In 2023 the ISSB issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable, and in addition, the Canadian Securities Administrators issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. We continue to monitor these, and other standards being issued, and are still evaluating how the proposed standards, may impact our financial and sustainability reporting.

Climate Related Risk

As in previous reports, at this time we have identified the following climate related risks and opportunities, and have aligned our current initiatives and targets with these.

TRANSITIONAL RISKS:

- Adoption of legislation or regulatory programs to reduce GHG emissions could have an operational and/or financial impact.
- The societal pressure, including customer and investor, to transition from the use of hydrocarbon energy towards a lower carbon economy to reduce emissions could change the demand for the Corporation's services.

PHYSICAL RISKS:

- More extreme variability in weather patterns, such as extreme hot and cold weather, heavy snow and rain fall, drought, wildfires, hurricanes and flooding, that may be linked to climate change are disruptive to drilling operations and could have a material impact on our ability to deliver services.

CLIMATE RELATED OPPORTUNITIES:

- Many of the emerging renewable energy sources require drilling services to extract and produce the energy.
- Our clients are actively pursuing more efficient drilling processes that reduce time required at the rig site.

Environment

Energy production is fundamental to the way we live and collectively we are striving toward more sustainable development and sources of energy. Our industry is committed to the responsible and reliable production of energy and as a service provider we play a key role in doing so with minimal environmental impact.

We will remain diligent in assessing our operations' impact and risks, and continue to strive to reduce our footprint, decrease the waste we generate, minimize the use of non-renewable resources, and recycle and reuse whenever possible.



Photo credit: Justin Schram, US Remote DD Superintendent

Fuel Consumption, GHG Emissions & Air Quality	<p>Decrease our energy consumption per operating day by 10% by 2030 Ten-Year Target - Baseline Year 2020</p> <p><i>In 2023, our energy consumption metrics stayed consistent with previous years even though business activity placed more demands on our operational groups. The increased activity and new business lines are still aligned with our conservation efforts. On a comparative basis to other service providers and operators in our industry, our emission intensity is generally low, as none of our downhole technologies emit GHG.</i></p>
Water Usage	<p>Decrease our water consumption per operating day by 10% by 2030 Ten-Year Target - Baseline Year 2020</p> <p><i>In 2023 despite our water consumption increasing in line with our growth we continued to recycle the majority of the water we utilize for washing, testing and servicing our equipment. Outside of these areas the remainder of our water used relates to domestic purposes. Our facility and HSE teams will continue to assess our water usage for areas where we can further conserve this finite resource.</i></p>
Waste Management	<p>Reduce the amount of waste produced through recycling efforts at each of our facilities</p> <p><i>We recycled 1.6 million lbs of metal from our manufacturing processes and 6,488 lithium batteries used in our MWD systems in 2023. Additionally, we have processes and accountabilities to ensure all waste generated through our operations is handled in accordance with regulatory requirements and to aide in identifying further opportunities for recycling, repurposing or more eco-friendly alternatives.</i></p>
Spill Prevention & Chemical Management	<p>Maintain 0 reportable spills Annual Target</p> <p><i>In 2023 we once again had 0 reportable spills. As part of our HSE Management System, we have processes and procedures in place to ensure we are protecting both people and the environment from the risk of hazardous chemicals within our operations.</i></p>

Environment

With a smaller direct environmental and carbon impact, the directional drilling industries' biggest opportunity to contribute to environmental protection is through partnerships with both our clients and suppliers. Our services and technologies combined with the efforts of others have allowed significant changes to drilling operations that have reduced the environmental impact. In 2023, we nearly double our R&D expenditures and the technologies being developed will aid in the continued evolution of more efficient drilling operations.



Biodiversity and Land Use	Pad drilling which is enabled by directional drilling allows the multiple wells to be drilled from one rig location reducing the physical footprint on the land and amount of land disturbed by the operations.
Drilling efficiencies reduce energy consumption	<p>With the development of premium downhole technologies such as ours, modern day drilling rigs and other advancements, it now takes less days to drill wells.</p> <p>Remote drilling operations and automation have the potential to eliminate a large portion of travel related to personnel. These industry initiatives require our MWD technologies that provide data from underground to the surface and the transmission of this data from the rig site to a central location. Additionally, our motors and RSS systems provide the horsepower to the drilling process underground.</p>

Earth Day

In 2023 we celebrated Earth Day in all of our locations by holding employee presentations focusing on our ESG environmental goals and the impact we all have on our planet. Each location held an environmentally friendly lunch, inviting employees to listen to a presentation put on by our environmental committee to discuss the importance of our ESG initiatives. The highlights of these presentations included:

- our environmental initiatives including our ESG environmental targets
- our environmental impact as a service provider
- our scope 1 & 2 emissions
- what we as an organization are doing to reduce our environmental impact and how our premium technology advancements play a roll in reducing our impact
- what we can do as both an organization and personally to reduce our impact

In Calgary the environmental committee handed out over 250 seedlings for employees to plant at their homes. In Houston, employees took part in tree planting ceremonies

We believe we are an organization that people are proud to be a part of and partner with, and maintaining this sentiment is a top priority, which includes setting key targets within our ESG strategy.

We have longevity in many of our relationships, including with our employees, suppliers and clients, which we believe is a testament to our values and business practices.

Our people truly are one of the vital driving forces behind our success and we are committed to retaining this competitive advantage.

29%

Employees with over
5 years tenure

11%

Employees with over
10 years tenure

Attract & Retain Personnel	<p>Reduce annual turnover rate by 5% Annual Target</p> <p><i>In 2023, our voluntary turnover rate decreased by 15% from 2022, which we believe speaks to our culture and ability to provide a workplace where people feel safe, valued, respected, and seen as part of something larger than themselves. Additionally, we have a high percentage of long term employees among our team of 902.</i></p>
Diversity & Inclusion	<p>Women represent 30% of all leadership roles by 2030 Ten-Year Target - Baseline Year 2020</p> <p><i>Women represented 23% of our leadership team in 2023 , which is a 10% improvement from our baseline. We are proud to have a diverse group of individuals throughout our team and value the creativity, collaboration and innovation that this brings. We will continue prioritizing diversity and inclusivity throughout our organization, ensuring equal opportunity for all.</i></p>
Support Local Communities	<p>Continue to support and provide opportunities to give back to local communities Annual Target</p> <p><i>In 2023, we continued to support charitable causes in the communities in which we operate and used volunteering and giving opportunities to create engagement, a sense of pride, and teamwork with our employees.</i></p>



Safety

Safety remains our top priority and we are very proud of our safety performance and culture where everyone in the company takes responsibility for their own safety and that of others.

We have formalized systems, processes and documents that have been developed in accordance with established industry standards. We continually assess our data and key performance indicators to determine priorities and identify improvement opportunities. Through our audits, corrective and preventive actions, training programs and many other initiatives, we achieved our established goals and targets.

The prominent role that safety plays in our organization, is reinforced through our safety training and awareness initiatives and programs. This includes an introduction to safety during onboarding, job specific training that includes a renewal process, Safety Stand Down Week and “town hall” meetings, and annual companywide Safety Engagement Survey.

Health & Safety

Maintain a TRIF of below 0.75

Annual Target

Our 2023 TRIF was 0.52, once again well below the International Association of Drilling Contractors (“IADC”) comparative rates for Canada and the US which were 0.90 and 1.54, respectively.

The cornerstones of our health and safety program are:

- Conducting our business in accordance with industry best practices.
- Maintaining an effective employee training program.
- Active participation by all managers, supervisors, employees, consultants, contractors and sub-contractors.
- Ensuring all equipment is appropriate and well maintained.
- Providing timely feedback to individuals and teams regarding safety performance.
- Holding individuals accountable for meeting their responsibilities.
- Recognizing individuals and teams who contribute positively to the HSE Management System.



OUR ULTIMATE GOAL IS
TO HAVE **ZERO INCIDENTS**
AND HAVE EACH AND EVERY
EMPLOYEE GO HOME SAFELY
EACH AND EVERY DAY.

Governance

Throughout our 28-year history, we have held ourselves to the highest standards of integrity and promoted a culture of transparency, and accountability. We have built systems and processes that evaluate our business risk and safeguard against these risks. We believe that the culture we have created and our strong corporate governance contributes to a resilient organization that our stakeholders can have confidence in.

Our Board, with the assistance of the Nomination and Corporate Governance (NCG) Committee, retains overall responsibility for the implementation and enforcement of an appropriate system of corporate governance, including policies and procedures to ensure the Board functions independently of management. Additionally, our Board provides guidance on our Environment, Health, Safety and Sustainability initiatives and strategies which are discussed at each quarterly Board meeting in addition to at Committee meetings where appropriate.



Ethics & Integrity	<p>Continue to have 100% of staff affirm their compliance with Code of Conduct and Anti-Corruption and Bribery Annual Target</p> <p><i>Fostering an environment that promotes a culture of ethical behavior and where reporting is easily accessible and free from negative consequences is vital to upholding the trust of our stakeholders.</i></p>
Cyber Security	<p>Maintain 100% participation by employees in our Cyber Security training Annual Target</p> <p><i>Our IT team is committed to ensuring we have systems and controls in place to prevent cyber-attacks, protect the personal data of our stakeholders, and safeguard our business continuity. Cyber-security remains one of our top risk management priorities, and we conduct regular cyber-security risk assessments based on the Center for Internet Security (CIS) cyber controls and engages the services of third-party agencies in our mitigation processes.</i></p>
Corporate Governance & Board Oversight	<p>Our Directors ensure compliance to laws, standards, policies and industry requirements in order to meet all stakeholder expectations Ongoing Target</p> <p>Our Board, either directly or through its committees, is responsible for the stewardship of the Corporation in key areas including vision, strategic planning and objectives, leadership, operational effectiveness, sustainability and financial reporting, integrity and corporate conduct, risk management, compliance with applicable laws, corporate governance practices, and Board process and effectiveness.</p>
Enterprise Risk	<p>Maintain a risk assessment process that identifies critical risks and the development of mitigation strategies and contingency planning Ongoing Target</p> <p><i>Frequent and timely communication related to risk management is provided to the Board, including regular updates in Board meeting from both the Executive team and various senior managers who oversee areas where material risks have been identified, including HSE, Tax and Financial, Information Technology and Security, Legal and Compliance, ESG, and Supply Chain.</i></p>

Reporting Mechanism

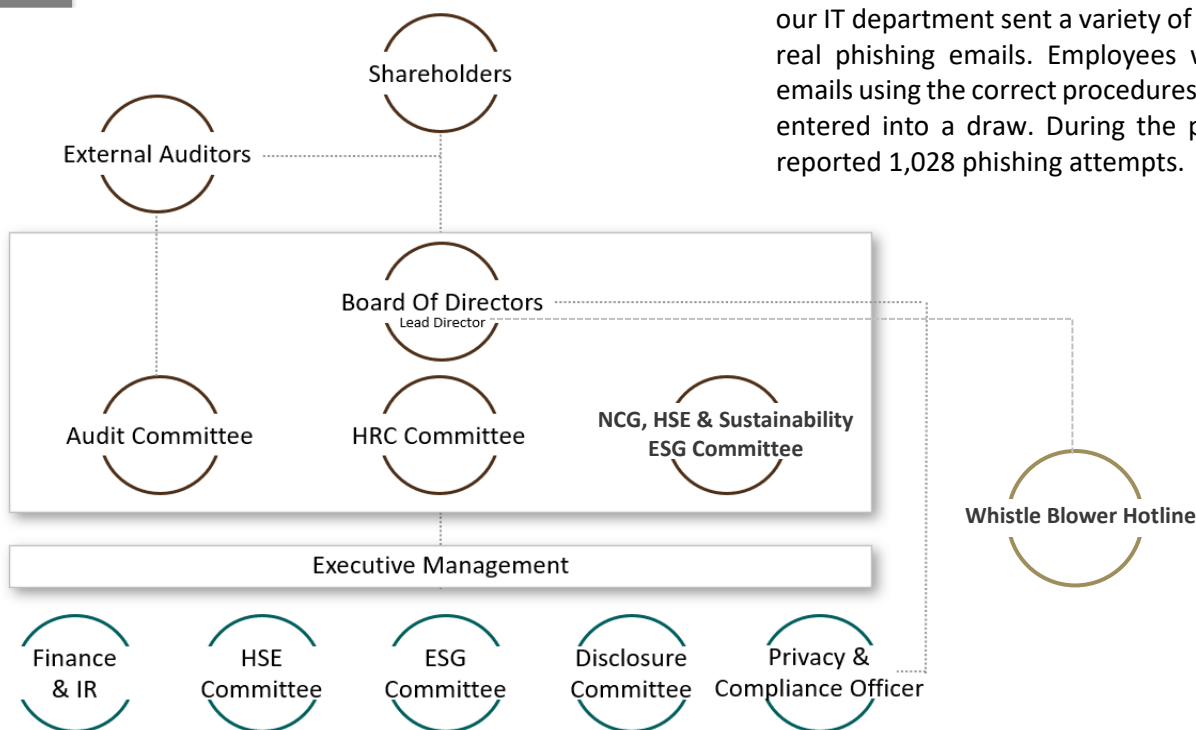
We understand the importance of ensuring that our personnel know how to report any violations and feel secure and safe in doing so. Anyone with questions or concerns about potentially unethical scenarios is encouraged to reach out for guidance from their supervisors, managers or other appropriate personnel. Additionally, if an issue arises regarding violation of legal or corporate rules and regulations, individuals can confidentially contact either the Privacy and Compliance Officer, Human Resources Manager—or make use of our Whistle Blower hotline service—each providing reassurance of confidentiality and against unfair retribution when voicing an issue in good faith.

Cybersecurity Month

Cybersecurity is becoming an increasing risk for both business and individuals, and we know that no matter how sophisticated the technology deployed to protect against potential threats, the greatest protection is being educated and aware. With this in mind, throughout October, we ran a company-wide campaign that highlighted the importance and seriousness of Cyber Security. The goal of the campaign was for employees to always have cybersecurity front of mind in their day-to-day lives and equip employees with the knowledge and skills to strengthen their online security to protect us as a corporation, as well as them and their families.

Topics covered included phishing awareness, secure browsing, reporting suspicious activity, importance of strong passwords, multifactor authentication, safeguards we use to protect our email and malware.

Our campaign also included a “Phishing Derby” contest where our IT department sent a variety of test emails, that replicated real phishing emails. Employees were to report these test emails using the correct procedures, and by doing so they were entered into a draw. During the phishing derby, employees reported 1,028 phishing attempts.



Multifactor Authentication

Multi-factor Authentication is all about **YOU**

Who you are
fingerprint scanners
voice verification
facial recognition

What you know
security questions
passwords and passphrases
PINs

What you own
SMS authentication
application-based authenticators
hardware tokens

Multi-factor authentication (MFA) is a multi-step account login process that requires users to enter more information than just a password and use a secondary device

Something as simple as 2-step verification can protect you from:

- 100%** of automated bots
- 96%** of phishing attacks
- 76%** of targeted attacks

PHOENIX TECHNOLOGY SERVICES Cybersecurity Tips

Phishing

Red Flags of Phishing

- Urgent or threatening language
- Requests for sensitive information
- Anything too good to be true
- Unexpected emails
- Information mismatches
Ex: small changes to an email address; spelling/grammar errors
- Suspicious attachments or Unknown links
- Unprofessional design

PHX Phishing Derby Report suspicious emails for your chance to win.

If you suspect an email is a Phishing attempt, use the “Report Phishing” button in Outlook to report it to IT

Each time you do, you get one entry into the prize draw at the end of Cybersecurity Month

PHOENIX TECHNOLOGY SERVICES Cybersecurity Tips

Performance Data Tables

Contribution to local economies is measured by SG&A, direct costs, capital expenditures and our inventories

Operating Data

	2021	2022	2023
Number of Active Well Sites ⁽¹⁾			
Number of Active Rigs	n/a	n/a	n/a
Wells Drilled	1,688	2,083	2,185
Operating Days ⁽²⁾	21,310	28,368	29,192
Total Amount of Drilling Performance			
Meters Drilled - Canada	2,860,356	3,944,603	4,597,949
Drilling Hours - Canada	146,162	202,648	243,467
Feet Drilled - USA	20,066,569	27,001,600	29,220,008
Drilling Hours - USA	319,119	454,020	450,240
Total Employees	707	843	902
Total Number of hours worked by all employees	1,604,634	2,132,597	2,341,385
North American Revenue (million of dollars CAD)	339.9	535.7	656.3

1) Required disclosure under SASB – the definition under SASB is not applicable to our operations, however wells drilled and operating days provide similar insight into the volume of activity we record in a year

2) Operating days is defined as the billable days on which PHX Energy is providing services to the client at the rig site

Environmental Data

	2021	2022	2023
Scope 1 Emissions (mtCO ² e)	3,724	4,778	5,055
Fuel (GJ)	34,513	48,047	54,087
Scope 2 Emissions (mtCO ² e)	822	910	1,012
Electricity (MWh)	3,174	3,632	3,950
Natural Gas (GJ)	36,946	37,444	34,305
Total	4,546	6,089	6,067
Scope 1 Per Operating Day*	0.17	0.16	0.17
Scope 2 Per Operating Day *	0.04	0.03	0.03
Total Per Operating Day	0.21	0.20	0.21
Fuel Consumed in Off Road Equipment	0	0	0
% Renewable	0	0	0
Fuel Consumed in On Road Equipment and Vehicles	34,513	48,047	54,087
% Renewable	0	0	0
% Engines Tier 4	n/a	n/a	n/a
Total Volume of Water Handled (thousands of m3)	n/a	4,984	5,656
% Recycled*	n/a	68%	84%
Volume Of Hydraulic Fracking Fluid Used	n/a	n/a	n/a
% Hazardous	n/a	n/a	n/a
Average Acreage Disturbed			
Oil	n/a	n/a	n/a
Gas	n/a	n/a	n/a

CO₂e emission factors based on country and fuel type source; The Climate Registry and the U.S. Environmental Protection Agency's Emissions & Generation Resource Integrated Database (eGRID) publication.

*based on water maze usage

Retention & Development

	2021	2022	2023
Voluntary Turnover	18%	13%	11%
Tenure (% of employees)			
5+ years	27%	24%	29%
10+ Years	10%	10%	11%
Learning Hours	22,023	25,464	21,443
Modular Enrollments	38,554	46,185	62,730
Modular Completion Rate	96%	92%	88%

Diversity

	2021	2022	2023
Women as %	11%	11%	12%
Men as %	89%	89%	88%
Women as % Leadership Role	23%	24%	23%

Governance

	2021	2022	2023
Average Age of Board of Directors	62	63	64
Average tenure of Board of Directors	12	13	14
Board of Director % as Woman	14%	14%	14%
% Independent	85%	85%	85%

Health & Safety Data

	2021	2022	2023
Total recordable incident rate (TRIR)	0.36	0.47	0.52
Fatality rate	0	0	0
Near miss frequency rate (NMFR)	5.09	6.23	4.04
Total vehicle incident rate (TVIR)	0.57	0.51	-
Average hours of health, safety, and emergency response training for:			
full-time employees	2,049	3,903	3,934
contract employees	878	3,440	2,443
short-service employees	968	-	1,590
-Number of days in year with no LTIs	365	365	365

Compliance, Ethics & Cybersecurity

	2021	2022	2023
% Ethics Compliance	100	100	100
% Cybersecurity Training	100	100	100

About This Update

We are committed to transparent communications related to our approach towards the environment and engaging our people and our stakeholder and demonstrate this commitment through our ESG reporting. Unless otherwise noted, this ESG and Sustainability Update (the “ESG Update” or the “Update”) covers our performance for the year ended December 31, 2023, however some discussions around initiatives, operating and business activities, technology and performance targets may be applicable to 2024 and beyond. Additionally, where available historical data from the prior two years has been included for comparative purposes. This Update has been reviewed and approved by our Board of Directors and senior management. The Update was prepared by our ESG Committee with the input and review from our internal subject matter experts. This Update, our 2022 ESG Report, our ESG program, ESG targets, and performance data align with the oil and gas services disclosure standard published by the Sustainability Accounting Standards Board (“SASB”) and the Task Force on Climate-Related Financial Disclosure (“TCFD”). Additional topics are also discussed in this Report based on feedback received, and we continue to encourage additional inquiries around ESG and our business by our stakeholders. Third party assurance was not conducted for this Update; we believe this Update is an accurate representation of our performance and have used internal verification to validate the data and information presented.

Additional information related to our business and performance can be obtained in our other continuous disclosure documents filed on SEDAR+ at www.sedarplus.ca, including our Management’s Discussion and Analysis, Financial Statements and Notes, Information Circular and Annual Information Form (“AIF”). The terms “PHX Energy”, “PHX”, the “Corporation”, “our”, “we”, “us” refer to PHX Energy Services Corp. and its subsidiaries.