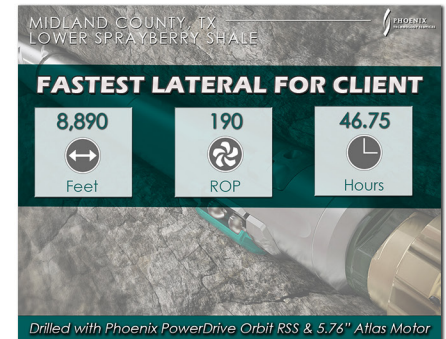
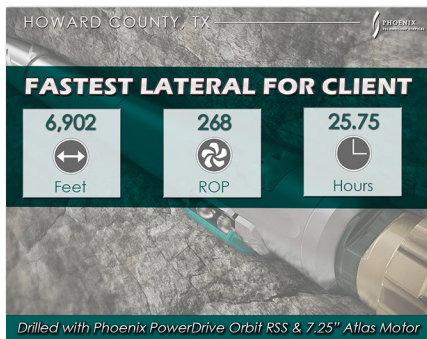
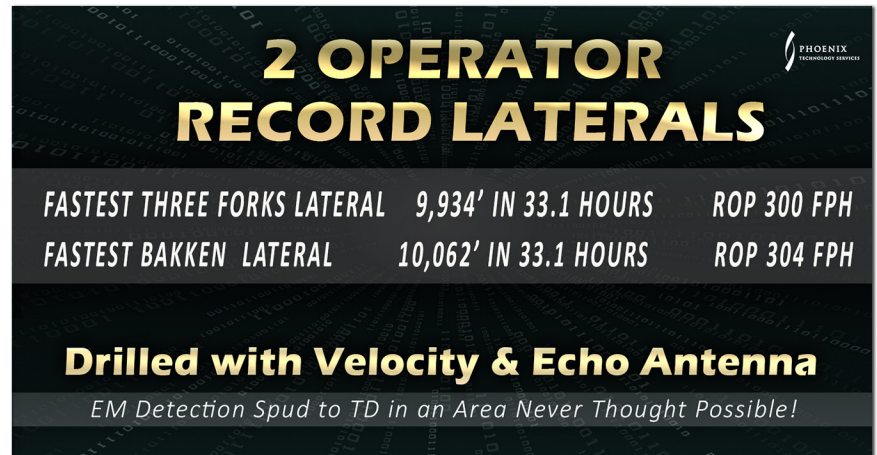


Q3 2021 MANAGEMENT'S DISCUSSION & ANALYSIS



PHX Energy Services Corp.

Third Quarter Report for the three and nine-month periods ended September 30, 2021 and 2020

Financial Results

For the three-month period ended September 30, 2021, PHX Energy Services Corp. (the "Corporation" or "PHX Energy") generated strong third quarter revenue from continuing operations as demand for the Corporation's premium technologies continued to strengthen and the industry activity continued to recover. PHX Energy recognized revenue of \$93.3 million (2020 - \$37 million) and PHX Energy's consolidated activity levels for the third quarter increased by 133 percent to 5,753 days (2020 - 2,467 days). For the three-month period September 30, 2021, earnings from continuing operations were \$4.2 million in the 2021-quarter (2020 - \$1.6 million) and adjusted EBITDA from continuing operations was \$14.1 million (2020 - \$6.8 million) (see "Non-GAAP Measures"). The 2021 adjusted EBITDA is double the adjusted EBITDA in the 2020-quarter, and the Corporation achieved this level of adjusted EBITDA despite higher cash-settled share-based payments that amounted to \$3.4 million (2020 - \$0.9 million). Adjusted EBITDA from continuing operations, excluding the impact of cash-settled share-based payments, would be \$17.5 million in the 2021 three-month period (2020 - \$7.7 million). Cash-settled share-based payments rose primarily due to increases in the Corporation's share price. Adjusted EBITDA in the third quarter of 2020 also included \$1.3 million in government grants and a bad debt recovery of \$0.9 million.

The Corporation's US segment reported its second highest third quarter revenue in the Corporation's history which represented 79 percent (2020 – 82 percent) of its third quarter consolidated revenue. The Corporation's US revenue increased 144 percent quarter-over-quarter, with the US division generating \$74 million in the 2021-quarter as compared to \$30.3 million in the 2020-quarter. In comparison, the US rig count during the third quarter of 2021 increased by 100 percent to 475 average rigs running per day as compared to the 238 rigs per day in the third quarter of 2020 (Source: Baker Hughes). The improvement in the US division's activity and revenue was mainly attributable to ongoing demand for the Corporation's premium technologies and high-quality services and this allowed the division to protect the market share gains it had made in prior quarters as industry activity grew.

In Canada, the industry and PHX Energy's activity levels also improved significantly quarter-over-quarter, with both seeing quadruple the number of wells drilled. The Corporation drilled 254 wells in the third quarter of 2021 (2020 – 63), a 303 percent increase, and the industry drilled 1,358 wells in the third quarter of 2021 (2020 – 335), a 305 percent improvement (Source: Daily Oil Bulletin). The Canadian division's revenue growth was consistent with the aforementioned activity growth and during the third quarter of 2021 the Canadian segment's revenue was \$19.3 million (2020 - \$6.7 million).

The Corporation continued to maintain a strong balance sheet position and reported a cash balance of \$24.9 million with no bank loans outstanding as at September 30, 2021. As a result of earnings growth, for the three-month period ended September 30, 2021, the Corporation's free cash flow from continuing operations increased to \$8.7 million as compared to \$2.4 million in the corresponding 2020-quarter (see "Non-GAAP Measures").

Dividends

In light of the Corporation's balance sheet strength and improving adjusted EBITDA margins and net earnings, in August of 2021 the Board approved an increase to the Corporation's quarterly dividend from \$0.025 per common share to \$0.05 per common share effective for the dividend payable on October 15, 2021.

On September 15, 2021, PHX Energy declared a cash dividend of \$0.05 per common share and \$2.5 million was paid on October 15, 2021 to shareholders of record at the close of business on September 30, 2021.

Responding to COVID-19

Despite oil prices recovering to pre-pandemic levels, the Corporation continued to monitor, evaluate and adjust its business costs in-line with drilling activity in North America and will continue to implement changes as required. In addition, the Corporation will continue to review various government assistance programs available for businesses in North America. For the three-month period ended September 30, 2021 the Corporation recognized government grants of \$0.1 million (2020 - \$1.3 million) in the Canadian division.

PHX Energy has and will continue to diligently preserve a solid financial position and retain financial flexibility through substantial liquidity on its credit facilities. As at September 30, 2021, the Corporation has working capital of \$54.9 million and approximately CAD \$65 million and USD \$15 million available from its credit facilities. Additional information regarding the risks, uncertainties and impact on the Corporation's business can be found throughout this MD&A, including under the headings "Capital Spending", "Operating Costs and Expenses", "Critical Accounting Estimates" and "Outlook".

Assets Held for Sale and Discontinued Operations

On December 10, 2020, the Corporation entered into a preliminary purchase and sale agreement with Well Tech Services Ltd. to sell the Russian division, operating under the entity Phoenix TSR LLC ("Phoenix TSR"), for 240 million Russian Rubles. The purchase and sale agreement was amended on August 31, 2021 to extend the transaction completion deadline to the first quarter of 2022. As part of the deadline extension, Well Tech Services Ltd., agreed to pay the Corporation two non-refundable deposits totaling 40 million Russian Rubles in October and November 2021 to be applied to the final purchase price.

Management expects the sale to be completed in the first quarter of 2022. Accordingly, for the nine-month period ended September 30, 2021, net assets with a carrying value of \$4.4 million owned by Phoenix TSR have been classified as assets

held for sale and liabilities directly associated with assets held for sale and the financial results of Phoenix TSR have been presented as discontinued operations. The decision to sell the division is not anticipated to have a significant impact on the continuing operations of the Corporation. For the three and nine-month periods ended September 30, 2021, the Russian division generated adjusted EBITDA of \$0.6 million and \$0.1 million, respectively (2020 - \$0.6 million and \$0.8 million, respectively).

Capital Spending

During the third quarter of 2021, the Corporation spent \$6.8 million in capital expenditures (2020 - \$1.8 million), which were primarily used to expand its fleet of premium technologies, specifically Velocity Real-Time System ("Velocity"), PowerDrive Orbit Rotary Steerable System ("RSS"), and Atlas High Performance Motors ("Atlas") to meet the growing demand for its drilling equipment. Of the total capital expenditures in the 2021-quarter \$3.5 million was spent on growing the Corporation's fleet of drilling equipment and the remaining \$3.3 million was spent on maintenance of the current fleet of drilling and other equipment. For the nine-month period ended September 30, 2021, the Corporation spent \$24.2 million in capital expenditures (2020 - \$22.1 million). Of the total capital expenditures in the 2021-period, \$15.9 million was spent on growing the Corporation's fleet of drilling equipment and the remaining \$8.3 million was spent on maintenance. The Corporation funded capital spending through funds from operations and cash and cash equivalents on hand.

On November 3, 2021 PHX Energy's Board of Directors (the "Board") approved a second increase to the 2021 capital expenditure program from \$35 million to \$43 million. This increase is in addition to the preliminary 2022 budget of \$30 million approved by the Board on August 4, 2021 and is primarily dedicated to growing and maintaining the Velocity, RSS and Atlas fleets to meet increased demand anticipated in the last quarter of 2021 and through 2022.

As at September 30, 2021, the Corporation has commitments to purchase drilling and other equipment for \$37.9 million. Of the purchases, \$14.1 million are expected to be delivered by the end of the fourth quarter with the remaining \$23.8 million anticipated to be delivered by the end of the first quarter of 2022. In light of global supply chain disruptions, the Corporation has been proactive in securing machinery and drilling equipment in order to capitalize on current and foreseeable market conditions. Commitments include \$15.1 million for Velocity systems, \$21.9 million for performance drilling motors primarily relating to Atlas, and \$0.9 million for other machinery and equipment. Of the \$37.9 million capital expenditure commitments, \$24.2 million is anticipated to be spent on growing the Corporation's fleet of high-performance equipment.

The Corporation currently possesses approximately 442 Atlas motors, comprised of various configurations including its 5.13", 5.76", 7.12", 7.25", 8" and 9" Atlas motors, 93 Velocity systems, and 33 PowerDrive Orbit RSS, the largest independent fleet in North America.

Technology Partnership

In the first quarter of 2021, the Corporation announced it had entered into a technology partnership with National Energy Services Reunited Corp. ("NESR"). Pursuant to the partnership, PHX Energy will provide its premium downhole technology for use in NESR's directional drilling operations in the Middle East and North Africa ("MENA") regions. Access to NESR's international markets is anticipated to provide opportunities to further extend the global reach and reputation of the Corporation's high-performance technologies and equipment. Velocity was certified as part of the qualification process in the second quarter and in the third quarter the Corporation successfully obtained certification for Atlas as well. With the successful qualification of both state-of-the-art technologies, NESR is now eligible to participate in the tendering process with Atlas and Velocity. Based on preliminary drilling results during the qualification process, the Corporation is optimistic that the tenders will be successful and through its partnership will be an active supplier in the region. It is anticipated that the tender process will take some time and the Corporation is expecting to increase activity levels in the region in the 2022-year.

Shares Held in Trust

In the second quarter of 2021, the Corporation amended its cash-settled share-based compensation program to permit the settlement of retention and performance awards with, at the option of the Corporation, either cash or common shares acquired by an independent trustee in the open market from time to time for such purposes. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired by the independent trustee in the open market are held in trust for the potential settlement of retention and performance award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlements. For the three-month period ended September 30, 2021, the trustee purchased 589,741 common shares for a total cost of \$2.8 million. As at September 30, 2021, 1,376,280 common shares are held in trust.

Investments

On July 20, 2021, PHX Energy announced a strategic investment of \$3 million in a geothermal power developer, DEEP Earth Energy Production Corp. ("DEEP"). DEEP is currently developing a geothermal power facility in southern Saskatchewan which stands to become the first major geothermal power facility in Canada. The investment in DEEP provides an opportunity for the Corporation to diversify the business as management continues to focus on strategies to ensure long term sustainable growth for the business. PHX Energy's investment in DEEP includes an option for an additional \$3.5 million equity upon the exercise of warrants held by the Corporation. Exercise of the warrants, which expires in three years, is at the discretion of the Corporation.

Normal Course Issuer Bid

During the third quarter of 2021, the Toronto Stock Exchange ("TSX") approved the renewal of PHX Energy's Normal Course Issuer Bid ("NCIB") to purchase for cancellation, from time-to-time, up to a maximum of 3,679,797 common shares, representing 10 percent of the Corporation's public float of common shares as at August 6, 2021. The NCIB commenced on August 16, 2021

and will terminate on August 15, 2022. 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, in the three-month period ended September 30, 2021, 500,000 common shares were purchased by the Corporation and cancelled.

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,		
	2021	2020	% Change	2021	2020	% Change
Operating Results – Continuing Operations	<i>(unaudited)</i>	<i>(unaudited)</i>		<i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue	93,338	37,043	152	237,650	178,930	33
Earnings (loss)	4,206	(1,590)	n.m.	13,987	(8,953)	n.m.
Earnings (loss) per share – diluted	0.08	(0.03)	n.m.	0.27	(0.17)	n.m.
Adjusted EBITDA ⁽¹⁾	14,108	6,823	107	42,755	30,669	39
Adjusted EBITDA per share – diluted ⁽¹⁾	0.28	0.13	115	0.83	0.58	43
Adjusted EBITDA as a percentage of revenue ⁽¹⁾	15%	18%		18%	17%	
Cash Flow – Continuing Operations						
Cash flows from operating activities	22,301	9,874	126	32,580	58,393	(44)
Funds from operations ⁽¹⁾	13,337	5,375	148	37,438	28,032	34
Funds from operations per share – diluted ⁽¹⁾	0.26	0.10	160	0.72	0.53	36
Dividends per share paid	0.025	-	n.m.	0.075	-	n.m.
Dividends paid	1,260	-	n.m.	3,785	-	n.m.
Capital expenditures	6,751	1,816	n.m.	24,159	22,078	9
Free cash flow ⁽¹⁾	8,658	2,439	n.m.	25,127	18,562	35
Financial Position (unaudited)				Sep 30, '21	Dec 31, '20	
Working capital				54,859	55,524	(1)
Net debt ^{(1) (2)}				(24,917)	(25,746)	(3)
Shareholders' equity				133,329	132,033	1
Common shares outstanding				48,732,719	50,625,920	(4)

n.m. – not meaningful

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

⁽²⁾ As at September 30, 2021, the Corporation had no bank loans and borrowing outstanding and was in a cash positive position.

Non-GAAP Measures

PHX Energy uses throughout this MD&A certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP"). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA per share, debt to covenant EBITDA, funds from operations, funds from operations per share, free cash flow, net debt and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP Measures" section following the Outlook section of this MD&A for applicable definitions and reconciliations.

Management's Discussion and Analysis

The following MD&A of the financial condition, results of operations and cash flow of PHX Energy Services Corp. should be read in conjunction with the Corporation's 2020 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 2020 annual report, and the Corporation's 2021 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 2021 third quarter report. Readers can also obtain additional information on the Corporation including its Information Circular and Annual Information Form ("AIF") filed on SEDAR at www.sedar.com. This MD&A has been prepared taking into consideration information available up to and including November 3, 2021.

PHX Energy's Interim Financial Report for the three and nine-month periods ended September 30, 2021 and 2020 has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A and Interim Financial Report was reviewed by PHX Energy's Audit Committee and approved by PHX Energy's Board on November 3, 2021.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

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

- Anticipated continuation of the Corporation's quarterly dividend program and the amounts of dividends;
- The potential for further impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto;
- The anticipated impact of global supply chain disruptions on the Corporation's operations, results, and the Corporation's planned responses thereto;
- The anticipated closing of the transaction to sell the Russian division in 2022 and the terms of this transaction;
- Access to NESR's international markets is anticipated to provide opportunities to further extend the global reach and reputation of the Corporation's high-performance technologies and equipment. PHX Energy is optimistic, based on these results, that through its partnership it will become a qualified supplier in the region. It is anticipated that this process will take some time and the Corporation is expecting to increase activity levels in the region in the 2022 year;
- The projected capital expenditures budget for 2021 of \$43 million and the projected capital expenditures budget for 2022 of \$30 million, and how these budgets will be allocated and funded;
- The anticipated increased demand for the Corporation's services and high performance technologies in North America;
- The expectation that the Corporation's operations in Albania remain on standby for anticipated resumption of activity and that drilling activity is expected to resume in early 2022;
- The potential future settlement of retention and performance awards in common shares that were purchased by an independent trustee in the open market; and,
- DEEP Earth Energy Production Corp. maintaining its operating status as a going concern.

The above are stated under the headings: “Dividend”, “Responding to COVID-19”, “Assets Held for Sale and Discontinued Operations”, “Technology Partnership”, “Capital Spending”, “Shares Held in Trust”, “Investments”, “Segmented Information”, “Liquidity”, “Financing Activities” and “Cash Requirements for Capital Expenditures”. In addition, all information contained under the headings “Responding to COVID-19”, “Critical Accounting Estimates”, “Business Risk Factors” and “Outlook” sections of this MD&A may contain forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this MD&A and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the continuing impact of COVID-19 on the global economy, specifically trade, manufacturing, supply chain 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; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services; the adequacy of cash flow, debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

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

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Russia, Albania, and the MENA region through a partnership with NESR.

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 centres in Calgary, Alberta. In addition, PHX Energy has a facility in Estevan, Saskatchewan. PHX Energy's US operations, conducted through the Corporation's wholly-owned subsidiary, Phoenix Technology Services USA Inc. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Casper, Wyoming; Midland, Texas; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania and Russia, and administrative offices in Nicosia, Cyprus; and Luxembourg City, Luxembourg.

In the fourth quarter of 2020, management, with approval from the Board, committed to a plan to sell the Russian division operating under the entity, Phoenix TSR LLC ("Phoenix TSR").

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

Results of Operations

Three and nine-month periods ended September 30, 2021

Revenue

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Revenue	93,338	37,043	152	237,650	178,930	33

For the three-month period ended September 30, 2021, PHX Energy recorded the highest level of consolidated third quarter revenue since the third quarter of 2014. The Corporation's consolidated revenue from continuing operations increased by 152 percent to \$93.3 million in the 2021-quarter compared to \$37 million in the 2020-quarter. This was mainly driven by the US divisions' volume of operating days and its improved average revenue per day. For the three-month period ended September 30, 2021, the average consolidated revenue per day, excluding the US motor rental division, was \$15,567 in comparison to \$14,467 in the same 2020-quarter, an 8 percent increase. Higher revenue per day was mainly due to the greater capacity of PHX Energy's high-performance technologies, and improved industry conditions, including oil prices return to pre-pandemic levels. For the quarter ended September 30, 2021, consolidated operating days increased 133 percent to 5,753 days from 2,467 days in the corresponding 2020-quarter. The higher operating days are primarily due to the high demand for PHX Energy's drilling technologies accelerated by the rebound in rig activities in both the US and Canadian segments. US revenue made up 79 percent of total consolidated revenue for the third quarter of 2021 (2020 – 82 percent).

During the third quarter of 2021, commodity prices continued to improve and drive industry activity. West Texas Intermediate ("WTI") spot crude oil price was 76 percent higher than in the 2020-quarter averaging USD \$72/bbl (2020 - USD \$41/bbl) and the Western Canadian Select ("WCS") oil prices showed an 84 percent improvement averaging USD \$59/bbl (2020 - USD \$32/bbl). The improvement in oil pricing resulted in substantial increases in industry activity, with the US industry operating at an average of 496 rigs per day in the third quarter of 2021, a 95 percent increase quarter-over-quarter, and the Canada industry operating at an average of 151 rigs per day in the third quarter 2021, a 221 percent improvement quarter-over-quarter (Sources: BNN Bloomberg and Baker Hughes).

For the nine-month period ended September 30, 2021, the Corporation's consolidated revenue increased by 33 percent to \$237.7 million as compared to the \$178.9 million reported in the same 2020-period. Consolidated operating days improved period-over-period with 15,240 days realized in 2021 compared to 11,720 in the 2020-period, a 30 percent increase. The average consolidated revenue per day, excluding the motor rental division in the US, for the 2021 nine-month period was

\$14,970, an increase of 3 percent compared to the average of \$14,593 in the 2020-period. Improvements in revenue for the nine-month period ended September 30, 2021 were primarily attributable to the greater capacity of high performance technologies and higher activity levels in both the US and Canadian divisions. The US segment revenue as a percentage of total consolidated revenue remained consistent at approximately 81 percent of the total consolidated revenue for the nine-month period ended September 30, 2021 (2020 – 80 percent).

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Direct costs	74,546	32,831	127	188,499	154,574	22
Gross profit as a percentage of revenue	20%	11%		21%	14%	
Depreciation & amortization drilling and other equipment (included in direct costs)	6,453	6,615	(2)	18,962	21,522	(12)
Depreciation & amortization right-of-use asset (included in direct costs)	838	861	(3)	2,500	2,717	(8)
Gross profit as percentage of revenue excluding depreciation & amortization	28%	32%		30%	27%	

Direct costs are comprised of field and shop expenses and include depreciation and amortization of the Corporation's equipment and right-of-use assets. For the three-month period ended September 30, 2021, direct costs increased by 127 percent to \$74.5 million from \$32.8 million in the comparable 2020-period. For the nine-month period ended September 30, 2021, direct costs increased by 22 percent to \$188.5 million from \$154.6 million in the corresponding 2020-period. The increase in direct costs for both periods was primarily associated with increased activity levels and inflationary pressures resulting in higher personnel costs and equipment repair expenses during the 2021-periods.

The reduction in the depreciation and amortization expenses for the three and nine-month periods ended September 30, 2021 was mainly the result of PHX Energy's lower level of capital spending relative to the quarters before the COVID-19 pandemic and more assets being fully depreciated.

For the three-month period ended September 30, 2021, gross profit as a percent of revenue, excluding depreciation and amortization, decreased to 28 percent from 32 percent. The decrease in gross profit percentage is primarily due to the tapering off of government grants, higher personnel costs, higher equipment repair costs impacted by inflation and supply chain disruptions, and a greater number of equipment rentals associated with higher activity levels. For the nine-month period ended September 30, 2021, gross profit as a percent of revenue, excluding depreciation and amortization, was 30 percent in

comparison to 27 percent in the 2020-period. The improved profitability in the nine-month period is primarily due to increased activity and revenue per day in the US segment in addition to government grants received in the first half of 2021.

The Corporation did not recognize any governments grants in direct costs in the third quarter of 2021 (2020 - \$0.9 million). For the 2021 nine-month period, the Corporation reported \$2 million (2020 - \$1.4 million) in the Canadian Emergency Wage Subsidy ("CEWS") and the Canadian Emergency Rent Subsidy ("CERS") support programs and USD \$3.7 million (2020 - \$nil) from the Coronavirus Aid, Relief, and Economic Security Act ("CARES") program. Gross profit as a percentage of revenue excluding depreciation, amortization and government grants for the three and nine-month periods ended 2021 was 28 percent and 26 percent, respectively (2020 - 29 percent and 26 percent, respectively).

(Stated in thousands of dollars except percentages)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	2021	2020	% Change
SG&A costs	12,326	5,794	113	31,938	19,069	67
Cash-settled share-based payments (included in SG&A costs)	3,380	883	n.m.	9,948	(1,144)	n.m.
Equity-settled share-based payments (included in SG&A costs)	116	66	76	335	214	57
SG&A costs excluding equity and cash-settled share-based payments as a percentage of revenue	9%	13%		9%	11%	

n.m. – not meaningful

For the three and nine-month periods ended September 30, 2021, SG&A costs were \$12.3 million and \$31.9 million, respectively, as compared to \$5.8 million and \$19.1 million in the corresponding 2020-periods. Increased SG&A costs in both periods was mainly attributable to compensation expenses related to cash-settled share-based awards and higher personnel costs associated with increased drilling activity. The increase in SG&A costs in the third quarter of 2021 was marginally offset by \$0.1 million in CERS government grants (2020 - \$0.5 million in CEWS and CERS government grants). For the nine-month period ended September 30, 2021, the Corporation reported \$1.4 million (2020 - \$0.8 million) of CEWS and CERS assistance and USD \$0.4 million (2020 - \$nil) of CARES as an offset to SG&A costs.

Cash-settled share-based payments relate to the Corporation's Retention Award Plan and are measured at fair value. For the three-month period ended September 30, 2021, cash-settled share-based payments increased to \$3.4 million from \$0.9 million in the 2020-quarter. For the nine-month period ended September 30, 2021, cash-settled share-based payments increased to \$9.9 million from a recovery of \$1.1 million in the same 2020-period. The increase in cash-settled share-based payments expense in the respective periods is mainly due to the increase in the Corporation's share price period-over-period.

Equity-settled share-based payments relate to the amortization of the fair values of issued options by the Corporation using the Black-Scholes model. For the three and nine-month periods ended September 30, 2021, equity-settled share-based

payments increased 76 percent and 57 percent, respectively, due to the higher fair value of the 2021 options granted compared to the 2018 to 2020 options that vested during the respective periods.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Research & development expense	540	216	150	1,725	1,796	(4)

Research and development ("R&D") expenditures for the three and nine-month periods ended September 30, 2021 were \$0.5 million (2020 - \$0.2 million) and \$1.7 million (2020 - \$1.8 million), respectively. With oil prices and revenue returning to pre-pandemic levels, R&D costs have gradually increased over the course of 2021 to support initiatives aimed at continually improving the reliability and efficiency of the Corporation's high-performance technologies.

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Finance expense	114	128	(11)	380	643	(41)
Finance expense lease liability	527	573	(8)	1,609	1,799	(11)

Finance expense mainly relates to interest charges on the Corporation's long-term and short-term bank facilities. With all loans and borrowings paid down in the second quarter of 2020, finance charges for the three-month periods ended September 30, 2021 and 2020, which comprised primarily of standby charges, remained consistent at \$0.1 million. For the nine-month period ended September 30, 2021 finance expense decreased 41 percent to \$0.4 million from \$0.6 million. Since the second quarter of 2020, the Corporation has solely funded its operating, investing, and financing activities with funds from operations and cash and cash equivalents.

Finance expense lease liability relates to interest expenses incurred on lease liabilities. For the three and nine-month periods ended September 30, 2021, finance expense lease liability decreased to \$0.5 million and \$1.6 million, respectively (2020 - \$0.6 million and \$1.8 million, respectively).

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	2021	2020
Net (gain) loss on disposition of drilling equipment	39	(125)	(4,263)	(2,458)
Foreign exchange (gains) losses	(77)	60	(16)	(172)
Provision for (Recovery of) bad debts	(14)	(909)	(279)	1,768
Other income	(52)	(974)	(4,558)	(862)

Other income in the nine-month period ended September 30, 2021 is primarily comprised of gains on disposition of drilling equipment that typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. For the three-month period ended September 30, 2021, the Corporation incurred a net loss on disposition of drilling equipment of \$39 thousand (2020 – net gain of \$0.1 million) as a result of minimal occurrence of downhole equipment losses in the quarter. For the nine-month period ended September 30, 2021, the Corporation recognized a net gain on disposition of drilling equipment of \$4.3 million (2020 - \$2.5 million). Over the course of 2021, the Corporation had a higher occurrence of downhole equipment losses in the first half of the year resulting in a higher net gain on disposition of drilling equipment.

Foreign exchange gains and losses relate to unrealized and realized exchange fluctuations in the period. For the three and nine-month periods ended September 30, 2021, the Corporation recognized foreign exchange gains of \$0.1 million and \$16 thousand, respectively, as compared to foreign exchange losses of \$0.1 million and foreign exchange gains of \$0.2 million in the respective 2020-periods. Gains in the 2021-periods primarily relate to the revaluation of CAD-denominated intercompany receivable in the US segment.

For the three and nine-month periods ended September 30, 2021, the Corporation reported a bad debt recovery of \$14 thousand and \$0.3 million, respectively (2020 - \$0.9 million recovery and \$1.8 million expense, respectively), which relates mainly to US receivable accounts recovered in 2021.

(Stated in thousands of dollars, except percentages)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	2021	2020
Provision for income taxes	1,131	66	4,070	134
Effective tax rates	21%	n.m.	23%	n.m.

n.m. – not meaningful

For the three and nine-month periods ended September 30, 2021, the Corporation recognized a provision for income taxes of \$1.1 million (2020 - \$0.1 million) and \$4.1 million (2020 - \$0.1 million), respectively. Higher provisions in both 2021-periods were mainly a result of improved profitability particularly in the US jurisdictions. Deferred taxes in the 2021 and 2020-periods were impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdictions.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Revenue	19,322	6,706	188	45,018	35,856	26
Reportable segment profit (loss) before tax	2,258	(328)	n.m.	4,807	95	n.m.

n.m. – not meaningful

For the three month-period ended September 30, 2021, PHX Energy's Canadian segment's revenue was \$19.3 million which was almost triple the \$6.7 million in the same 2020-quarter. The Canadian segment benefited from significantly improved volumes in the 2021-quarter, as operating days in the third quarter rose to 2,128 from 721 in the 2020-quarter. The industry's days did increase at a slightly greater rate than the Canadian division's quarter-over-quarter, rising from 3,592 days to 13,183 days. Average revenue per day decreased by 7 percent from \$9,786 in the third quarter of 2020 to \$9,054 in the same 2021-quarter as the effect of COVID-19 pricing concessions introduced in the third quarter of 2020 continue to persist.

During the third quarter of 2021, the Corporation remained active in the Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, and Scallion basins.

For the nine-month period ended September 30, 2021, the Canadian segment's revenue improved 26 percent to \$45 million compared to \$35.9 million in the corresponding 2020-period. Due to COVID -19 pricing concessions that occurred throughout 2021, average revenue per day in the Canadian segment decreased to \$9,005 in the 2021-period as compared to \$9,327 in the same 2020-period. However, the reduced average revenue per day was offset by higher activity in the 2021-period as operating days improved 32 percent, with 4,982 operating days recorded versus 3,774 days in the 2020-period. In comparison, the Canadian industry activity for the nine-month periods ended September 30, 2021 reported a 48 percent increase in drilling days in the 2021-period, from 22,110 days to 32,760 days.

Consistent with the increase in revenue, for three and nine-month periods ended September 30, 2021 reportable segment income before tax was \$2.3 million and \$4.8 million, respectively, compared to \$0.3 million loss and \$0.1 million, respectively,

in the same 2020-periods. The improved margins for both 2021-periods were primarily due to higher activity and lower depreciation, and the support of government grants contributing to the nine-month period margin.

United States

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Revenue	74,016	30,337	144	192,632	143,074	35
Reportable segment income before tax	8,760	678	n.m.	23,611	9,835	140

n.m. - not meaningful

The US segment continued its strong recovery in the 2021-period and achieved the second highest third quarter revenue in the Corporation's history, with the highest being achieved in the third quarter of 2014. For the three-month period ended September 30, 2021 revenue grew to \$74 million as compared to \$30.3 million in the respective 2020-quarter. Revenue gains in the quarter are mainly a result of increased activity and average revenue per day. PHX Energy's US segment operating days rose to 3,626 days, an increase of 108 percent as compared to 1,747 days in the corresponding 2020-quarter. In comparison, the average number of horizontal and directional rigs running per day in the US improved 100 percent quarter-over-quarter from an average of 238 active rigs per day in the 2020-period to an average of 475 active rigs per day in the 2021-period (Source: Baker Hughes). Average revenue per day, excluding the Corporation's US motor rental division, increased by 17 percent to \$19,388 in the 2021-quarter (2020 - \$16,597). Omitting the impact of foreign exchange, the average revenue per day, excluding the Corporation's US motor rental division, increased 23 percent to USD \$15,391 (2020 - USD \$12,465).

During the third quarter of 2021, Phoenix USA continued to be active in the Permian, Eagle Ford, SCOOP/STACK, Marcellus, Bakken, and Niobrara basins.

For the nine-month period ended September 30, 2021, US revenue grew to \$192.6 million from \$143.1 million in the comparable 2020-period, an increase of 35 percent. During the 2021 nine-month period, the US segment saw continued improvements in drilling activity. Operating days rose by 29 percent to 10,258 days from 7,946 days in the same 2020-period. In comparison, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, actually decreased by 6 percent period-over-period averaging 428 rigs in the 2021 nine-month period as compared to an average of 456 rigs in the comparable 2020-period. The average revenue per day, excluding the Corporation's US motor rental division, improved to \$17,867 in the 2021-period from \$17,139 in the same 2020-period, an increase of 4 percent. Omitting the impact of foreign exchange, the average revenue per day, excluding the Corporation's US motor rental division, increased 13 percent to USD \$14,288 (2020 - USD \$12,676).

The growth in the Corporation's operating days in excess of the industry average and the significant improvement in the average revenue per day in both three and nine-month periods ended September 30, 2021 evidences the growing demand for PHX Energy's high-performance technologies and the growing market share that the Corporation is experiencing in the US division. The increase in RSS activity also greatly contributed to the improvement in the average revenue per day in both 2021-periods.

For the three and nine-month periods ended September 30, 2021, the reportable segment income before tax was \$8.8 million and \$23.6 million, respectively, compared to \$0.7 million and \$9.8 million in the equivalent 2020-periods. The improved margins in both 2021-periods are mainly attributable to the rise in activity levels, higher average revenue per day and continued prudent cost control. The support from government grants also contributed to the higher segment profit margin for the nine-month period.

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended September 30,			Nine-month periods ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Revenue	-	-	n.m.	-	-	n.m.
Reportable segment loss before tax	(302)	(1,011)	(70)	(1,101)	(1,350)	(18)

n.m. – not meaningful

The International segment information and discussion for the three and nine-month periods ended September 30, 2021 and 2020 only include the operations in the Albanian division. The financial results of the Russian division have been presented as discontinued operations.

In the third quarter of 2021, PHX Energy's operations in Albania remained suspended; however, negotiations have commenced regarding the resumption of operations in Albania. For the three-month period ended September 30, 2021, reportable segment loss before tax was \$0.3 million (2020 – \$1 million). For the nine-month period ended September 30, 2021, reportable segment loss before tax was \$1.1 million (2020 - \$1.4 million). In both the 2021 and 2020-periods, expenses incurred were primarily personnel and equipment costs necessary to remain on standby for anticipated resumption of activity.

Discontinued Operations

In the fourth quarter of 2020, management, with approval from the Board, committed to a plan to sell the Russian division operating under the entity, Phoenix TSR. Accordingly, for the nine-month period ended September 30, 2021, net assets with a carrying value of \$4.4 million owned by Phoenix TSR have been classified as assets held for sale and liabilities directly associated with assets held for sale and the financial results of Phoenix TSR have been presented as discontinued operations.

For the three-month period ended September 30, 2021, discontinued operations reported revenue of \$3.2 million (2020 - \$2.7 million) and earnings before taxes of \$0.6 million (2020 – \$0.1 million). For the nine-month period ended September 30, 2021, discontinued operations reported revenue of \$6.8 million (2020 - \$10.6 million) and earnings before taxes of \$0.1 million (2020 – \$0.8 million loss).

Summary of Quarterly Results – Continuing Operations

(Stated in thousands of dollars except per share amounts)

	Sep-21	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19
Revenue	93,338	75,765	68,547	54,805	37,044	42,985	98,901	90,060
Net income (loss)	4,206	4,447	5,334	2,028	(1,544)	(5,204)	(2,158)	(839)
Earnings (loss) per share – basic	0.09	0.08	0.11	0.04	(0.03)	(0.10)	(0.04)	(0.02)
Earnings (loss) per share – diluted	0.08	0.08	0.11	0.04	(0.03)	(0.10)	(0.04)	(0.02)
Adjusted EBITDA ⁽¹⁾	14,108	14,154	14,491	8,502	6,869	4,577	19,269	12,693
Funds from operations ⁽¹⁾	13,337	12,298	11,804	7,118	5,421	2,149	20,508	11,814

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

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	2021	2020
Funds from operations	13,337	5,375	37,438	28,032
			Sept. 30, '21	Dec. 31, '20
Working capital			54,859	55,524

For the three and nine-month periods ended September 30, 2021, the Corporation generated funds from operations of \$13.3 million (2020 - \$5.4 million) and \$37.4 million (2020 - \$28 million), respectively. The increase in funds from operations in both 2021-periods primarily resulted from higher activity levels and improved profitability in the third quarter of 2021 over the comparable 2020-period as the global economy continues to recover.

As at September 30, 2021, the Corporation had working capital of \$54.9 million, \$0.6 million lower than the \$55.5 million reported at December 31, 2020, mainly due to the significant increase in trade and other payables that resulted from increased activity, capital expenditures, and liabilities associated with cash-settled share-based compensation. The increase in trade and other payables was partially offset by the increase in trade and other receivables that resulted from revenue growth in the 2021-quarter.

Cash Flow and Dividends

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

In the third quarter of 2021, the Board approved a 100 percent increase to the quarterly dividend program increasing the quarterly dividend from \$0.025 per common share to \$0.05 per common share.

For the three and nine-month periods ended September 30, 2021, dividends paid of \$1.3 million and \$3.8 million (2020 - nil in both periods), respectively, were financed from the Corporation's funds from operations and cash and cash equivalents.

Investing Activities

For the three-month period ended September 30, 2021, PHX Energy used \$11.5 million net cash in investing activities as compared to \$1.3 million in the same 2020-quarter, and received proceeds of \$0.6 million relating to the involuntary disposal of drilling equipment in well bores as compared to \$0.8 million in the corresponding 2020-quarter.

In the third quarter of 2021, the Corporation spent \$6.8 million on capital expenditures compared to \$1.8 million in the 2020-quarter. The expenditures in the 2021-quarter were comprised of:

- \$3.2 million in MWD systems and spare components;
- \$3.4 million in downhole performance drilling motors; and,
- \$0.2 million in machinery and equipment and other assets.

The capital expenditure program undertaken in the period was financed from cash flows from operations. Of the total capital expenditures in the 2021-quarter \$3.5 million was used to grow the Corporation's fleet of drilling equipment and the remaining \$3.3 million was used to maintain the current fleet of drilling and other equipment.

In addition to the acquisition of drilling and other equipment, the Corporation made another strategic investment by acquiring a minor equity position in DEEP Earth Energy Production Corp. ("DEEP"), a geothermal power developer. The investment in DEEP provides a rewarding opportunity for the Corporation to diversify its business to include renewable energy projects and increase the focus on long term sustainable growth.

Financing Activities

The Corporation reported cash flows used in financing activities of \$6.5 million in the three-month period ended September 30, 2021 as compared to \$3.9 million in the 2020-period. In the 2021-quarter:

- common shares were purchased by an independent trustee in the open market for \$2.8 million to be held in trust for the potential future settlement of retention and performance awards;
- 500,000 common shares were repurchased and cancelled for \$2.3 million under the NCIB;
- dividends of \$1.3 million were paid to shareholders;
- payments of \$0.8 million were made towards lease liability; and,
- 218,700 common shares were issued for proceeds of \$0.6 million upon the exercise of share options.

Capital Resources

As of September 30, 2021, the Corporation had nothing drawn on its syndicated and operating facilities, and a cash balance of \$24.9 million. In addition, the Corporation had CAD \$65 million and USD \$15 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

As at September 30, 2021, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	As at September 30, 2021
Debt to covenant EBITDA ⁽¹⁾	<3.0x	n.m.
Interest coverage ratio	>3.0x	92.7

n.m. – not meaningful

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

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. On November 3, 2021, the Board approved a second increase to the 2021 capital expenditure program from \$35 million to \$43 million. This increase is in addition to the preliminary 2022 budget of \$30 million approved by the Board on August 4, 2021 and is primarily dedicated to growing and maintaining the Velocity, RSS and Atlas fleets to meet increased demand anticipated in the last quarter of 2021 and through 2022.

These planned expenditures are expected to be financed from cash flow from operations, cash and cash equivalents, and / or the Corporation's unused credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2021, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at September 30, 2021, the Corporation has commitments to purchase drilling and other equipment for \$37.9 million. Purchases of \$14.1 million are expected to be delivered by the end of the fourth quarter with the remaining \$23.8 million anticipated to arrive by the end of the first quarter of 2022.

Off-Balance Sheet Arrangements

The Corporation had no off-balance sheet arrangements as at September 30, 2021 and 2020.

Proposed Transactions

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

In the fourth quarter of 2020, PHX Energy entered into a preliminary sale and purchase agreement with Well Tech Services Ltd. for the sale of Phoenix TSR. The transaction is expected to be completed in early 2022, subject to entering into of definitive documentation and satisfaction of certain conditions.

Critical Accounting Estimates

The consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The Corporation's significant accounting policies are described in its annual audited consolidated financial statements for the year ended December 31, 2020.

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

In preparing the condensed consolidated interim financial statements, the significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2020.

Business Risk Factors

The business risk factors applicable to the Corporation have not materially changed since December 31, 2020. Refer to the "Business Risk Factors" section of the MD&A in PHX Energy's 2020 annual report as well as in the Corporation's most recent Annual Information Form filed on SEDAR at www.sedar.com.

Changes in Accounting Policies

The condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2020, unless specified.

Financial Instruments

Financial assets at fair value through other comprehensive income ("FVOCI")

These assets are subsequently measured at fair value with the net gains or losses recognized in other comprehensive income ("OCI"). Interest and dividend income resulting from financial assets measured at FVOCI are recognized in the Corporation's net earnings.

Non-derivative financial assets

Financial assets at FVOCI consist of equity investments in a company. On initial recognition of an equity investment that is not held-for-trading, the Corporation may irrevocably elect to present subsequent changes in the investment's fair value in OCI. There is no subsequent reclassification of fair value changes to earnings following the derecognition of the investment. Interest and dividends that reflect a return on investment continue to be recognized in net earnings. This election is made on an investment-by-investment basis.

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 will be considered level 3 under the fair value hierarchy and will require management to assess information available, which may include private placements, available financial statement information and other available market data.

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 Directors of the Corporation. Additional information relating to the Corporation's Corporate Governance can be found in the Corporation's Annual Information Form and Information Circular in respect of its annual meeting of shareholders, each of which are annually filed on SEDAR at www.sedar.com.

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

The Corporation's Certifying Officers have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Corporation. ICFR includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the annual financial statements or interim financial reports.

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

There were no changes in the Corporation's ICFR that occurred during the period beginning on July 1, 2021 and ended on September 30, 2021 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

<i>(In thousands of shares)</i>	As at November 3, 2021
Common shares outstanding, excluding shares held in trust	48,536,462
Common shares held in trust ⁽¹⁾	1,662,537
Total common shares outstanding	50,198,999
Dilutive securities:	
Options	3,296,300
Corporation shares – diluted	53,495,299

⁽¹⁾ Common Shares held in trust for the potential future settlement of awards granted under the Corporation's Retention Award Plan

Outlook

In the third quarter, the positive momentum from previous quarters continued and we once again generated strong results from activity growth and increased demand for our services. Our 2021 third quarter revenue and activity levels showed significant improvement over the third quarter of 2020, as last year the third quarter was the lowest point in the downturn. As the industry rebounds, we have continued to generate positive earnings and maintain our strong financial position while increasing our fleet, expanding our operations, and rewarding shareholders.

Looking forward we see the North American rig count continuing to climb upward and stability in commodity prices which we believe will drive ongoing demand for our premium technologies. To protect our market position, we will require greater fleet capacity and we have increased our 2021 capital expenditures to build up our fleet for expected activity in 2022 and to try to reduce the impacts of the strains on our supply chain. Additionally in light of our forecasted activity, our preliminary 2022 capital expenditure program is set to \$30 million, as previously announced. In Canada we believe the rig counts will be 20-30 percent higher at the start of 2022 than today and in the US we believe rig counts will continue a steady increase, likely increasing in excess of 20 percent by the fourth quarter of 2022.

A portion of our capital program is dedicated to increasing our Rotary Steerable System ("RSS") fleet, which has increased from 18 systems at the start of 2021 to 33 systems currently, as we were experiencing shortages that required us to rent this technology. Our US division has become a leader in the RSS market, driven by the unique combination of Atlas, Velocity and PowerDrive RSS, and we have captured a significant share of the US RSS market. Increasing our fleet will ensure we are maximizing our margins related to these operations.

Like many other industries our supply chain has been disrupted by the global recession and we are seeing increased costs, shortages and long lead times. We are leveraging our strong financial position to allow us to place orders well in advance and

feel this is prudent given the issues we are already experiencing. We anticipate these disruptions could increase further in upcoming quarters and could have an industry-wide impact as activity grows.

The directional drilling market remains highly competitive, and this results in a slower process for pricing increases even for surcharges related to our premium technologies. We have seen some movement in pricing, and we do foresee that as the industry continues to improve, we will see more and be able to recuperate some of the cost inflations we are experiencing. Additionally, we are pleased to announce that our Atlas and Velocity systems are officially certified to operate in the MENA region, having successfully passed the qualification stage, setting many records on the test wells drilled during this process. This success is a positive step for our technology partnership and our partner is participating in directional tenders, that now include the use of these premium technologies. If these tenders are successful, we foresee drilling to commence in 2022.

We are committed to our ESG strategy and through our investment in DEEP Earth Energy are aiding the development of this renewable energy project while gaining exposure to this emerging market. The same technologies that help oil and gas operators drill wells faster reducing their environmental impact are valuable technologies in drilling non-oil and gas wells. In the third quarter we provided services on our first geothermal well in Canada as well as drilled multiple non-fossil fuel wells such as potash and helium. We believe that there will be greater demand in the future for directional drilling expertise and technology as the renewable energy sector emerges and we are proud to be a part of its development.

We are pleased with our third quarter results and believe the positive momentum we have achieved thus far in 2021 will continue through the fourth quarter and into 2022. Our strategies and successes have set us apart within the energy service sector, building a balance sheet that allows us to reward shareholders and we are proud to be one of a few in our sector that is able to do so through our dividend program. We remain diligent with cost management and continue to use our financial strength to fuel growth, develop our environmental and social initiatives and reward shareholders.

Michael Buker
President
November 3, 2021

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before finance expense, finance expense lease liability, income taxes, depreciation and amortization, impairment losses on drilling and other equipment and goodwill, equity share-based payments, severance payouts relating to the Corporation's restructuring cost, and unrealized foreign exchange gains or losses, does not have a standardized meaning and is not a financial measure that is recognized under GAAP. However, Management believes that adjusted EBITDA provides supplemental information to net earnings that is useful in evaluating the results of the Corporation's principal business activities before considering certain charges, how it was financed and how it was taxed in various countries. Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. PHX Energy's method of calculating adjusted EBITDA may differ from that of other organizations and, accordingly, its adjusted EBITDA may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	2021	2020
Earnings (loss) from continuing operations	4,206	(1,590)	13,987	(8,953)
Add (deduct):				
Depreciation and amortization drilling and other equipment	6,453	6,615	18,962	21,522
Depreciation and amortization right-of-use asset	838	861	2,500	2,717
Provision for income taxes	1,131	66	4,070	134
Finance expense	114	128	380	643
Finance expense lease liability	527	573	1,609	1,799
Equity-settled share-based payments	116	66	335	214
Unrealized foreign exchange (gain) loss	(112)	35	77	(62)
Impairment loss	-	-	-	10,730
Severance	835	69	835	1,925
Adjusted EBITDA as reported	14,108	6,823	42,755	30,669

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 on a dilutive basis does not include anti-dilutive options.

Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	2021	2020
Cash flows from operating activities	22,301	9,874	32,580	58,393
Add (deduct):				
Changes in non-cash working capital	(8,785)	(4,553)	4,910	(30,251)
Interest paid	48	42	155	317
Income taxes paid (received)	(227)	12	(207)	(427)
Funds from operations	13,337	5,375	37,438	28,032

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 on a dilutive basis does not include anti-dilutive options.

Free Cash Flow

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

The following is a reconciliation of funds from operations to free cash flow:

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2021	2020	2021	2020
Funds from operations ⁽¹⁾	13,337	5,375	37,438	28,032
Deduct:				
Maintenance capital expenditures	(3,320)	(1,690)	(8,263)	(5,408)
Cash payment on leases	(1,359)	(1,246)	(4,048)	(4,062)
Free cash flow	8,658	2,439	25,127	18,562

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

Debt to Covenant EBITDA Ratio

Debt is represented by loans and borrowings. Covenant EBITDA, for purposes of the calculation of this covenant ratio, is represented by net earnings for a rolling four quarter period, adjusted for finance expense and finance expense lease liability, provision for income taxes, depreciation and amortization, equity-settled share-based payments, impairment losses on goodwill and intangible assets, and IFRS 16 Leases adjustment to restate cash payments to expense, subject to the restrictions provided in the amended credit agreement.

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. Working capital excludes assets held for sale and liabilities associated with assets held for sale. This non-GAAP measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses working capital to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating working capital may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

Net Debt

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

Definitions

When the Corporation refers to operating days throughout this document, it is referring to the billable days on which PHX Energy is providing services to the client at the rig site. Average revenue per day is calculated by dividing revenue by the number of operating days. Average consolidated revenue per day is calculated by dividing consolidated revenue by the consolidated number of operating days.

Corporate Information

Board of Directors

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

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President International Operations
and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta