Q3 2023

Financial Statements & Notes

PHX
ENERGY SERVICES CORP.

Condensed Consolidated Interim Statements of Financial Position

(unaudited)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,845,393	$ 18,247,376
Trade and other receivables	128,588,190	125,836,273
Inventories	63,569,528	63,119,489
Prepaid expenses	2,989,717	3,024,166
Total current assets	209,992,828	210,227,304
Non-current assets:		
Drilling and other long-term assets (Note 6)	127,753,169	115,945,060
Right-of-use assets	27,978,171	29,336,163
Intangible assets	14,111,652	15,668,180
Investments	3,000,500	3,000,500
Other long-term assets	1,645,473	993,112
Deferred tax assets	53,869	53,869
Total non-current assets	174,542,834	164,996,884
Total assets	$ 384,535,662	$ 375,224,188
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	$ 92,021,042	$ 104,688,901
Dividends payable (Note 8d)	7,276,760	7,636,085
Lease liability	3,229,737	2,906,708
Current tax liabilities	6,194,933	656,499
Total current liabilities	108,722,472	115,888,193
Non-current liabilities:		
Lease liability	34,909,196	36,768,003
Loans and borrowings (Note 7)	18,302,454	22,731,389
Deferred tax liability	18,719,720	18,496,619
Other (Note 8c)	2,838,630	4,461,531
Total non-current liabilities	74,770,000	82,457,542
Equity:		
Share capital (Note 8a)	233,646,892	251,344,809
Contributed surplus	7,178,466	7,044,317
Deficit	(69,376,356)	(112,120,484)
Accumulated other comprehensive income	29,594,188	30,609,811
Total equity	201,043,190	176,878,453
Total liabilities and equity	$ 384,535,662	$ 375,224,188

See accompanying notes to unaudited condensed consolidated interim financial statements.

Commitments (Note 6b)

Condensed Consolidated Interim Statements of Comprehensive Earnings

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Revenue (Note 4)	**$ 169,367,911**	$ 142,418,326	**$ 491,008,431**	$ 377,986,582
Direct costs	**125,137,605**	111,734,015	**376,995,672**	304,200,177
Gross profit	**44,230,306**	30,684,311	**114,012,759**	73,786,405
Expenses:				
Selling, general and administrative expenses	**19,832,791**	15,589,015	**50,911,033**	49,536,435
Research and development expenses	**1,245,826**	909,169	**3,816,601**	2,538,935
Finance expense	**597,898**	499,461	**1,974,058**	873,445
Finance expense lease liability	**554,405**	498,239	**1,694,550**	1,506,640
Other income (Note 9)	**(9,113,282)**	(3,953,620)	**(24,359,774)**	(11,031,501)
	13,117,638	13,542,264	**34,036,468**	43,423,954
Earnings from continuing operations before income taxes	**31,112,668**	17,142,047	**79,976,291**	30,362,451
Provision for income taxes				
Current	**5,616,371**	625,922	**13,591,604**	396,650
Deferred	**575,118**	3,041,401	**937,818**	5,987,492
	6,191,489	3,667,323	**14,529,422**	6,384,142
Earnings from continuing operations	**24,921,179**	13,474,724	**65,446,869**	23,978,309
Discontinued operations				
Net loss from discontinued operations, net of taxes (Note 11)	**-**	-	**-**	(14,558,032)
Net earnings	**24,921,179**	13,474,724	**65,446,869**	9,420,277
Other comprehensive income				
Foreign currency translation	**3,613,465**	8,739,048	**(1,015,623)**	10,563,631
Reclassification of foreign currency translation loss on disposition (Note 11)	**-**	-	**-**	10,560,954
Total comprehensive earnings for the period	**$ 28,534,644**	$ 22,213,772	**$ 64,431,246**	$ 30,544,862
Earnings (loss) per share – basic				
Continuing operations	**$ 0.50**	$ 0.27	**$ 1.29**	$ 0.48
Discontinued operations	**$ -**	$ -	**$ -**	$ (0.29)
Net earnings	**$ 0.50**	$ 0.27	**$ 1.29**	$ 0.19
Earnings (loss) per share – diluted				
Continuing operations	**$ 0.50**	$ 0.27	**$ 1.28**	$ 0.48
Discontinued operations	**$ -**	$ -	**$ -**	$ (0.29)
Net earnings	**$ 0.50**	$ 0.27	**$ 1.28**	$ 0.19

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

(unaudited)

Nine-month period ended September 30, 2023	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2022	**50,896,175**	**$ 251,344,809**	**$ 7,044,317**	**$ 30,609,811**	**$ (112,120,484)**	**$ 176,878,453**
Issuance of share capital on exercise of options	**315,000**	**763,950**	**-**	**-**	**-**	**763,950**
Issuance of share capital from trust on settlement of retention awards	**121,763**	**955,066**	**-**	**-**	**-**	**955,066**
Common Shares repurchased and cancelled	**(2,710,500)**	**(19,101,893)**	**-**	**-**	**-**	**(19,101,893)**
Common shares purchased and held in trust	**(114,000)**	**(612,000)**	**-**	**-**	**-**	**(612,000)**
Share-based payments	**-**	**-**	**431,109**	**-**	**-**	**431,109**
Fair value of options exercised	**-**	**296,960**	**(296,960)**	**-**	**-**	**-**
Net earnings	**-**	**-**	**-**	**-**	**65,446,869**	**65,446,869**
Foreign currency translation, net of tax	**-**	**-**	**-**	**(1,015,623)**	**-**	**(1,015,623)**
Dividends	**-**	**-**	**-**	**-**	**(22,702,741)**	**(22,702,741)**
Balance, September 30, 2023	**48,508,438**	**$ 233,646,892**	**$ 7,178,466**	**$ 29,594,188**	**$ (69,376,356)**	**$ 201,043,190**

Nine-month period ended September 30, 2022	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2021	47,978,662	$ 235,463,414	$ 9,462,091	$ 11,228,529	$ (121,721,790)	$ 134,432,244
Issuance of share capital on exercise of options	1,140,138	2,170,885	-	-	-	2,170,885
Issuance of share capital from trust on settlement of retention awards	2,144,795	13,491,993	-	-	-	13,491,993
Common shares purchased and held in trust	(555,300)	(3,500,000)	-	-	-	(3,500,000)
Share-based payments	-	-	393,042	-	-	393,042
Fair value of options exercised	-	2,744,647	(2,744,647)	-	-	-
Net earnings	-	-	-	-	9,420,277	9,420,277
Foreign currency translation, net of tax	-	-	-	10,563,631	-	10,563,631
Reclassification of foreign currency translation loss on disposition (Note 11)	-	-	-	10,560,954	-	10,560,954
Dividends	-	-	-	-	(12,515,968)	(12,515,968)
Balance, September 30, 2022	50,708,295	$ 250,370,939	$ 7,110,486	$ 32,353,114	$ (124,817,481)	$ 165,017,058

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30, 2023	2022	Nine-month periods ended September 30, 2023	2022
Cash flows from operating activities:				
Earnings from continuing operations	**$ 24,921,179**	$ 13,474,724	**$ 65,446,869**	$ 23,978,309
Adjustments for:				
Depreciation and amortization	**9,866,881**	8,143,257	**28,804,904**	23,242,730
Depreciation and amortization right-of-use asset	**822,190**	744,876	**2,057,025**	2,429,603
Provision for income taxes	**6,191,489**	3,667,323	**14,529,422**	6,384,142
Unrealized foreign exchange gain	**427,482**	155,128	**391,554**	36,602
Net gain on disposition of drilling equipment (Note 9)	**(8,353,639)**	(4,157,247)	**(23,903,064)**	(10,798,870)
Equity-settled share-based payments	**144,193**	133,034	**431,109**	393,042
Finance expense	**597,898**	499,461	**1,974,058**	873,445
Finance expense lease liability	**554,405**	498,239	**1,694,550**	1,506,640
Provision for (recovery of) bad debts	**(1,106,245)**	(1,501)	**116,519**	(1,501)
Provision for inventory obsolescence	**653,716**	51,868	**1,301,822**	876,524
Interest paid on lease liability	**(554,405)**	(498,239)	**(1,694,550)**	(1,506,640)
Interest paid	**(472,654)**	(413,530)	**(1,506,251)**	(591,701)
Income taxes received (paid)	**(7,075,749)**	9,461	**(8,533,759)**	228,591
Change in non-cash working capital	**7,011,213**	(679,450)	**(21,140,830)**	(17,683,437)
Continuing operations	**33,627,954**	21,627,404	**59,969,378**	29,367,479
Discontinued operations (Note 11)	**-**	-	**-**	(1,254,859)
Net cash from operating activities	**33,627,954**	21,627,404	**59,969,378**	28,112,620
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**11,682,392**	6,274,079	**32,689,018**	15,453,628
Acquisition of drilling and other equipment	**(18,803,529)**	(18,631,230)	**(49,457,974)**	(52,051,148)
Acquisition of intangible assets	**-**	(74,189)	**-**	(692,394)
Change in non-cash working capital	**3,203,370**	(370,923)	**2,150,701**	339,967
Continuing operations	**(3,917,767)**	(12,802,263)	**(14,618,255)**	(36,949,947)
Discontinued operations (Note 11)	**-**	-	**-**	(68,068)
Net cash used in investing activities	**(3,917,767)**	(12,802,263)	**(14,618,255)**	(37,018,015)
Cash flows from financing activities:				
Dividends paid to shareholders	**(7,620,665)**	(3,796,793)	**(22,912,561)**	(10,069,396)
Repurchase of shares under the NCIB	**(17,523,151)**	-	**(19,101,893)**	-
Proceeds from (repayment of) loans and borrowings	**(9,399,518)**	3,892,008	**(4,231,389)**	24,000,000
Payments of Lease Liability	**(765,891)**	(734,273)	**(2,221,166)**	(2,466,184)
Purchase of shares held in trust	**-**	-	**(612,000)**	(3,500,000)
Proceeds from exercise of options	**414,500**	359,032	**763,950**	2,170,885
Change in non-cash working capital	**(414,500)**	-	**(414,500)**	-
Continuing operations	**(35,309,225)**	(280,026)	**(48,729,559)**	10,135,305
Net cash from (used in) financing activities	**(35,309,225)**	(280,026)	**(48,729,559)**	10,135,305
Net increase (decrease) in cash and cash equivalents	**(5,599,038)**	8,545,115	**(3,378,436)**	1,229,910
Cash and cash equivalents, beginning of period	**20,079,623**	17,971,334	**18,247,376**	24,828,830
Effect of movements in exchange rates on cash held	**364,808**	507,210	**(23,547)**	964,919
Cash and cash equivalents, end of period	**$ 14,845,393**	$ 27,023,659	**$ 14,845,393**	$ 27,023,659

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine-month periods ended September 30, 2023 and 2022

In Canadian dollars (unaudited)

1. Reporting Entity

PHX Energy Services Corp. ("PHX Energy" or the "Corporation") is a publicly-traded Corporation listed on the Toronto Stock Exchange ("TSX") under the symbol "PHX". The Corporation's registered office is at Suite 1600, 215 – 9th Avenue SW Calgary, Alberta, Canada.

The Corporation, through its subsidiaries, provides horizontal and directional drilling services and technologies to oil and natural gas exploration and development companies in Canada, United States, Albania, and the Middle East regions. The Corporation also develops and manufactures technologies that are made available for internal operational use.

The condensed consolidated interim financial statements include the accounts of the Corporation and its wholly owned subsidiaries.

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended December 31, 2022.

These condensed consolidated interim financial statements were authorized by the Board of Directors on November 7, 2023.

b) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on a going concern basis using the historical cost basis except for liabilities for cash-settled share-based payment arrangements and investments, which are measured at fair value. Liabilities for cash-settled share-based payment arrangements are included in trade and other payables and other non-current liabilities in the statement of financial position.

c) Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in Canadian dollars ("CAD"), which is the Corporation's functional currency.

d) Use of Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with International Financial Reporting Standards ("IFRS") requires Management to make judgments, 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 these 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, 2022.

e) Future Accounting Pronouncements

i) Standards and Interpretations not yet Applied

A number of new standards, amendments to standards and interpretations of standards have been issued by the IASB and the International Financial Reporting Interpretations Committee, the application of which are effective for periods beginning on or after January 1, 2024. The Corporation does not expect the implementation of these new accounting pronouncements to have a material impact on its accounting policies.

3. Significant Accounting Policies

These 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, 2022. The revenue policy has been updated, as noted hereafter, due to the growth in the Corporation's other revenue streams during the periods and the expectation that the growth in these revenue streams will continue in future periods.

a) Revenue

Revenue is recognized when a client obtains control of the goods or services. Revenue is measured based on the consideration specified in the contract with a client and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control over a product or service to a customer or client. The

Corporation’s services are sold based upon bid acceptance or contracts with clients that includes fixed or determinable prices based upon daily, hourly, or job rates.

The Corporation primarily generates directional drilling services revenue whereby the client is charged a flat day rate for each day the rig requires directional drilling services. The day rate includes personnel assistance as well as use of equipment. The Corporation recognizes revenue daily based on the daily drilling rate. The Corporation’s performance obligation is the bundling of its services relating to directional drilling activities, which distinctly benefit the client each day of active drilling. The Corporation recognizes this benefit to revenue daily, over a period of time, as services have been provided. An invoice is sent to the client upon completion of the well, also revenues are accrued based on daily services provided at period end.

Instances where there are equipment failures or delays, a sales credit will be issued upon review with the client. The Corporation will accrue a sales credit when it is highly probable that a sales credit will be issued.

Motor rental revenue is based on the number of hours the motor was used in drilling operations, and the rate for that equipment. The Corporation’s performance obligation is providing the use of equipment which distinctly benefits the client during the rental period. The Corporation recognizes this benefit to revenue based on each hour of utilization. An invoice is sent to the client upon completion of the rental period, also revenue is accrued based on the number of hours the motor was used at period end.

The Corporation also sells various motor parts and motor equipment from inventory. The Corporation’s performance obligation is satisfied upon delivery of such inventory to the customer, at which time the benefits of ownership and control of the asset has been transferred and revenue is recognized. An invoice is sent to the customer upon shipment of goods.

4. Revenue

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

(Stated in thousands of dollars)	Canada		United States		International		Total	
Three-month periods ended September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Directional drilling services	**44,145**	30,725	**105,980**	102,806	**1,116**	1,194	**151,241**	134,725
Motor rental	**283**	271	**11,636**	7,422	**-**	-	**11,919**	7,693
Sale of motor equipment and parts	**-**	-	**6,208**	-	**-**	-	**6,208**	-
Total revenue	**44,428**	30,996	**123,824**	110,228	**1,116**	1,194	**169,368**	142,418

(Stated in thousands of dollars)	Canada		United States		International		Total	
Nine-month periods ended September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Directional drilling services	**111,716**	77,046	**333,123**	278,440	**3,463**	2,758	**448,302**	358,244
Motor rental	**1,384**	793	**31,204**	18,950	**-**	-	**32,588**	19,743
Sale of motor equipment and parts	**-**	-	**10,118**	-	**-**	-	**10,118**	-
Total revenue	**113,100**	77,839	**374,445**	297,390	**3,463**	2,758	**491,008**	377,987

5. Operating Segments

The Corporation provides directional and horizontal oil and natural gas well drilling services and technologies. PHX Energy's reportable segments have been aligned as follows:

Information about reportable segments

(Stated in thousands of dollars)	Canada		United States		International		Total	
Three-month periods ended September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total revenue	**44,428**	30,996	**123,824**	110,228	**1,116**	1,194	**169,368**	142,418
Reportable segment profit before income taxes	**8,263**	4,479	**25,494**	17,056	**351**	420	**34,108**	21,955

(Stated in thousands of dollars)	Canada		United States		International		Total	
Nine-month periods ended September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total revenue	**113,100**	77,839	**374,445**	297,390	**3,463**	2,758	**491,008**	377,987
Reportable segment profit before income taxes	**17,828**	7,930	**65,453**	40,387	**1,248**	781	**84,529**	49,098

(Stated in thousands of dollars)	Canada		United States		International		Total	
As at September 30,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total Assets	**134,831**	122,363	**247,110**	228,739	**2,595**	2,051	**384,536**	353,153

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2023	2022	**2023**	2022
Reportable segment profit before income taxes	**34,108**	21,955	**84,529**	49,098
Corporate:				
Selling, general and administrative expenses	**9,710**	6,861	**21,427**	24,849
Research and development expenses	**1,246**	909	**3,817**	2,539
Finance expense	**598**	499	**1,974**	873
Finance expense lease liability	**554**	498	**1,695**	1,507
Other income	**(9,113)**	(3,954)	**(24,360)**	(11,032)
Earnings from continuing operations before income taxes	**31,113**	17,142	**79,976**	30,362

6. Drilling and Other Long Term Assets

a) Acquisitions and Disposals

During the nine-month period ended September 30, 2023, the Corporation acquired assets with a cost of $49.5 million (2022 - $52.1 million).

Assets with a carrying amount of $8.8 million (2022 - $4.7 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $23.9 million (2022 - $10.8 million), which is included in other income (see Note 9) in the condensed consolidated interim statement of comprehensive income.

b) Capital Commitments

As at September 30, 2023, the Corporation has commitments to purchase drilling and other equipment for $33.8 million with delivery expected to occur throughout the rest of the 2023-year and into the first quarter of 2024.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at September 30, 2023**	Currency	Carrying Amount at December 31, 2022
Operating facility	CAD	15,000	December 12, 2025	CAD	**-**	CAD	731
Syndicated facility	CAD	50,000	December 12, 2025	CAD	**18,302**	CAD	22,000
Total CAD facility		65,000			**18,302**		22,731
US Operating facility	USD	15,000	December 12, 2025	USD	**-**	USD	-

The carrying amount of loans and borrowings is presented net of borrowing costs amounting to $0.2 million at September 30, 2023. Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at September 30, 2023 the Corporation was in compliance with all of its financial covenants as follows:

Ratio	Covenant	**September 30, 2023**
Debt to covenant EBITDA	< 3.0x	**0.13**
Interest coverage ratio	> 3.0x	**58.49**

The facilities bear interest based primarily on the Corporation's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined in the credit agreement. Interest on the operating facility is at the bank's prime rate plus 0.5 percent. Interest on the syndicated facility is at the Secured Overnight Financing Rate ("SOFR") plus 1.5 percent.

As at September 30, 2023 the Corporation has approximately CAD $46.5 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.

In November 2023, the Corporation increased the borrowing amounts in the syndicated facility from CAD $50 million to CAD $80 million and in the US operating facility from USD $15 million to USD $20 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2026. With the increased borrowing amounts, the Corporation has approximately CAD $76.5 million and USD $20 million available to be drawn from its credit facilities. Interest on the operating facility will be at the bank's prime rate plus one percent. Interest on the syndicated facility would be at the Canadian Overnight Repo Rate Average ("CORRA") plus two percent.

8. Share Capital

a) Authorized and Issued Shares

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

	Number		Amount
Balance as at January 1, 2022	47,978,662	$	235,463,414
Common shares repurchased and held in trust	(626,400)		(4,110,000)
Issued shares pursuant to retention awards plan	2,277,875		14,618,748
Issued shares pursuant to share option plan	1,266,038		5,372,647
Balance as at December 31, 2022	50,896,175	$	251,344,809
Common shares repurchased and cancelled	**(2,710,500)**		**(19,101,893)**
Common shares repurchased and held in trust	**(114,000)**		**(612,000)**
Issued shares pursuant to retention awards plan	**121,763**		**955,066**
Issued shares pursuant to share option plan	**315,000**		**1,060,910**
Balance as at September 30, 2023	**48,508,438**	**$**	**233,646,892**

b) Share Option Program (Equity-Settled)

PHX Energy has a share option program that entitles key management personnel and other employees to purchase common shares in the Corporation. Grants under the plan vest as to one-third 6 months from the grant date, one-third 18 months from grant date and one-third 30 months from grant date. In accordance with these programs, options are exercisable using the five-day weighted-average trading price of the common shares ending immediately prior to the date of grant, or in the case of a US option holder, the trading price of the common shares ending immediately prior to the date of grant. The options have a term of five years.

<u>Summary of option grants in 2023</u>

Number		Exercise Price	Expiration Date		Fair Value
150,000	$	7.96	March 9, 2028	$	1.99
100,000		7.83	March 9, 2028		2.02
250,000					

The Corporation values all of its share options using the Black-Scholes model. The Corporation's determination of fair value of options on the date of grant is affected by the Corporation's share price as well as assumptions regarding a number of variables. For the options granted during 2023 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 54 percent, forfeiture rate of nil, dividend yield of 7.87 percent and a risk-free interest rate of 4.03 percent. The amounts computed according to the Black-Scholes model method may not be indicative of the actual values realized upon the exercise of these options by the holders.

Total compensation expense related to stock options recognized for the three and nine-month periods ended September 30, 2023 were $0.1 million and $0.4 million, respectively (2022 - $0.1 million recovery and $0.4 million, respectively).

A summary of the status of the plan as at September 30, 2023 is presented below:

	September 30, 2023		December 31, 2022	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	**1,133,334**	**$ 3.31**	2,854,200	$ 3.15
Granted	**250,000**	**7.91**	250,000	6.11
Exercised	**(315,000)**	**2.43**	(1,970,866)	3.44
Outstanding, end of period	**1,068,334**	**4.65**	1,133,334	3.31
Options exercisable, end of period	**818,329**	**3.84**	799,994	2.86

The weighted-average share price at the date of exercise for share options exercised for the nine-month period ended September 30, 2023 was $7.61 (2022 - $6.16).

The range of exercise prices for options outstanding at September 30, 2023 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	0.44 yrs	2.81	50,000	2.81
35,000	0.44 yrs	2.83	35,000	2.83
100,000	1.43 yrs	2.19	100,000	2.19
50,000	1.43 yrs	2.09	50,000	2.09
200,000	2.43 yrs	2.74	200,000	2.74
133,334	2.43 yrs	2.64	133,334	2.64
150,000	3.43 yrs	6.08	99,999	6.08
100,000	3.43 yrs	6.16	66,666	6.16
150,000	4.44 yrs	7.96	49,998	7.96
100,000	4.44 yrs	7.83	33,332	7.83
1,068,334	2.84 yrs	$ 4.65	818,329	$ 3.84

c) Retention Award Plan

The retention award plan has two types of awards: Restricted Awards (“RAs”) and Performance Awards (“PAs”) and results in eligible participants, as approved by the Board, receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. Under the previous RAP, if common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Effective February 28, 2023, the

Board approved an amendment to the RAP whereby if the Corporation elects to settle awards in common shares, the additional multiplier will no longer be applied. This amended plan applies to grants after February 28, 2023. Common shares acquired by an independent trustee in the open market are held in trust for the potential settlement of RA and PA award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlements. For the nine-month period ended September 30, 2023, the independent trustee purchased 114,000 common shares (2022 – 555,300) for a total cost of $0.6 million (2022 - $3.5 million) and released 121,763 common shares (2022 – 2,144,795) to settle retention award obligations of $1 million (2022 - $13.5 million). As at September 30, 2023, the Corporation held 3,301 common shares in trust (2022 – 73,044). The Corporation continues to account for its retention award plan as cash-settled share-based compensation.

RAs vest evenly over a period of three years. Upon vesting and subsequent exercise, the holder is entitled to receive a cash payment or common shares based on the fair value of the underlying shares determined using the five-day weighted-average trading price of the shares ending immediately prior to the exercise date plus accrued re-invested dividends.

PAs vesting and subsequent exercise is similar to RAs, except a payout multiplier is applied to the final payout. The payout multiplier is linked solely to total shareholder return on the Corporation's common shares relative to returns on securities of members of the Corporation's peer comparison group over the applicable vesting period and can range from a payout of zero percent to 200 percent. For the nine-month period ended September 30, 2023, 268,825 PAs were granted (2022 – 750,000 granted, of which 375,000 were subsequently forfeited), 1,159,523 PAs settled at a weighted-average payout multiplier of 185 percent (2022 – 774,152), no PAs were forfeited (2022 - nil). As at September 30, 2023, 846,756 PAs were outstanding (2022 – 1,565,276).

The Corporation recorded a total of $8.9 million compensation expense relating to these plans for the nine-month period ended September 30, 2023 (2022 – $17.6 million). The expense is included in selling, general and administrative expense and has a corresponding liability of $8.9 million in trade and other payables for the current portion and $2.8 million included in other liabilities for the long-term portion. There were 2,135,283 RAs and PAs outstanding as at September 30, 2023 (2022 – 3,293,538).

A summary of the status of the plan as at September 30, 2023 is presented below:

	September 30, 2023	December 31, 2022
RAs and PAs outstanding, beginning of period	**2,845,191**	3,267,579
Granted	**743,593**	1,613,555
Settled	**(1,453,501)**	(1,644,012)
Forfeited / cancelled	**-**	(391,931)
RAs and PAs outstanding, end of period	**2,135,283**	2,845,191

d) Dividends

On September 15, 2023, the Corporation declared a dividend of $0.15 per share or $7.3 million payable on October 16, 2023.

e) Normal Course Issuer Bid

During the third quarter of 2023, the TSX approved the renewal of PHX Energy's Normal Course Issuer Bid ("NCIB") to purchase for cancellation, from time-to-time, up to a maximum of 3,552,810 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 2, 2023. The NCIB commenced on August 16, 2023 and will terminate on August 15, 2024. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the previous and current NCIB, 2,710,500 common shares were purchased by the Corporation for $19.1 million and cancelled in the nine-month period ended September 30, 2023.

9. Other Income

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
(Stated in thousands of dollars)	**2023**	2022	**2023**	2022
Net gain on disposition of drilling equipment	**8,354**	4,157	**23,903**	10,799
Foreign exchange gains (losses)	**(347)**	(205)	**574**	(281)
Recovery of (provision for) bad debts	**1,106**	2	**(117)**	2
Other	**-**	-	**-**	512
Other income	**9,113**	3,954	**24,360**	11,032

10. Fair Values of Financial Instruments

The Corporation has designated its trade and other payables, dividends payable, and loans and borrowings as non-derivative financial liabilities carried at amortized cost. Cash and cash equivalents and trade and other receivables are designated as non-derivative financial assets measured at amortized cost. The Corporation's carrying values of these items, excluding loans and borrowings, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings bears interest at a floating market rate indicative of current spreads and accordingly the fair value approximate the carrying value.

Equity investments in a company are designated as non-derivative financial assets measured at Fair Value Through Other Comprehensive Income ("FVOCI") as the investment is not held-for-trading and fair value changes are not reflective of the Corporation's operations. The investment asset is carried at fair value on the consolidated statement of financial position. Fair value is considered level three under the fair value hierarchy and requires management to assess information available, which may include private placements, available financial statement information and other available market data.

11. Discontinued Operations

On June 30, 2022, the Corporation completed the sale of its Russian division. The transaction involved the sale of all shares of Phoenix TSR, a legally wholly-owned subsidiary of PHX Energy that held the entire Russian drilling operations. The operations were previously classified under the Russia operating segment for reporting purposes. A loss on disposition of $3.5 million was recognized on the date the sale was completed.

The results of the divested Phoenix TSR operations are as follows:

	Three-month period ended September 30, 2022	Nine-month period ended September 30, 2022
Revenue	$ -	$ 7,443
Expenses	-	(5,781)
	-	1,662
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	-	(10,561)
Loss on disposition of Phoenix TSR	-	(3,496)
Impairment and other write-offs	-	(1,967)
Loss from discontinued operations	-	(14,362)
Income tax from discontinued operations	-	196
Loss from discontinued operations, net of taxes	$ -	$ (14,558)

Included in the Corporation's other comprehensive income for the nine-month period ended September 30, 2022 is $0.2 million of foreign currency translations loss relating to Russia's operations.

Reconciliation of net loss from discontinued operations, net of taxes to cash used in discontinued operations is as follows:

	Three-month period ended September 30, 2022	Nine-month period ended September 30, 2022
Net loss from discontinued operations, net of taxes	$ -	$ (14,558)
Addback (deduct):		
Depreciation and amortization	-	136
Provision for income taxes	-	196
Unrealized foreign exchange gain	-	(56)
Interest and taxes paid, net	-	(3)
Loss on disposition of drilling equipment	-	68
Finance expense	-	3
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	-	10,561
Impairment and other write-offs	-	1,967
Loss on disposition of Phoenix TSR	-	3,496
Change in non-cash working capital	-	(3,065)
Cash used in operating activities	$ -	$ (1,255)

Cash from (used in) investing activities of discontinued operations are due to proceeds from disposition and a reversal of previously accrued proceeds.

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 Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

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

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

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta