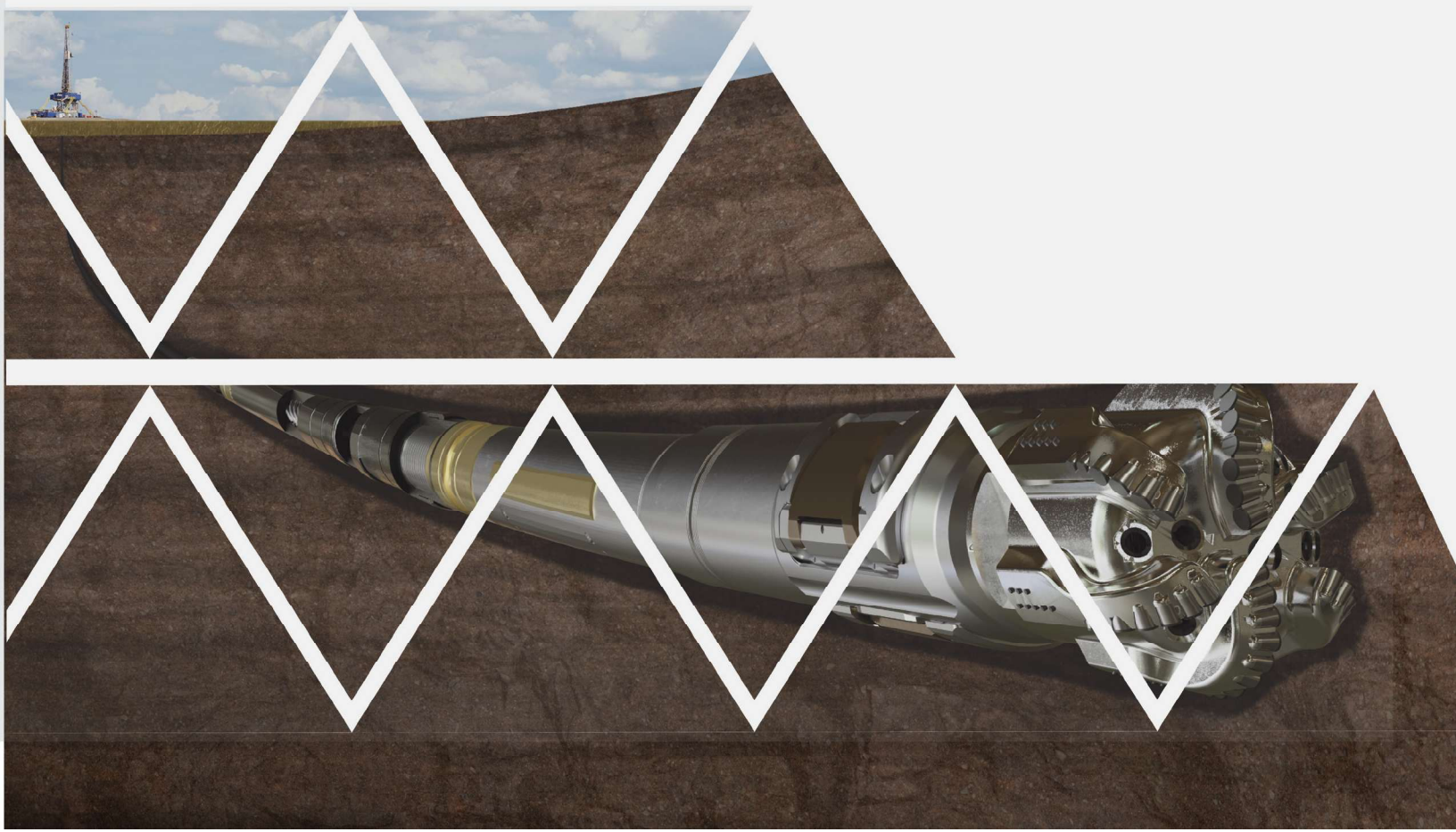


2025 MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis

Fourth Quarter and Year-End Report for the three and twelve-month periods ended December 31, 2025 and 2024

The following Management's Discussion and Analysis ("MD&A") of the financial condition, results of operations, and cash flow of PHX Energy Services Corp. ("PHX Energy" or the "Corporation") should be read in conjunction with the Corporation's annual audited consolidated financial statements for the years ended December 31, 2025 and 2024 and the accompanying notes contained therein as well as other sections contained within the Corporation's 2025 annual report. Readers can also obtain additional information on the Corporation including its most recently filed Annual Information Circular and Annual Information Form ("AIF") on SEDAR+ at www.sedarplus.ca. This MD&A has been prepared taking into consideration information available up to and including February 24, 2026.

PHX Energy's audited annual financial statements for the years ended December 31, 2025 and 2024 have been prepared in accordance with IFRS Accounting Standards, as issued by the International Accounting Standards Board. The MD&A and audited annual financial statements were reviewed by PHX Energy's Audit Committee and approved by PHX Energy's Board of Directors (the "Board") on February 24, 2026.

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

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

Fourth Quarter Highlights

- For the three-month period ended December 31, 2025, PHX Energy generated consolidated revenue of \$183.9 million, the highest level of fourth quarter revenue on record and 3 percent higher than the \$178.7 million generated in the fourth quarter of 2024. The strong revenue achieved in the 2025-quarter is partly attributable to the increase in quarterly Rotary Steerable Systems ("RSS") activity which represented 18 percent of the Corporation's consolidated activity in the 2025-quarter (2024-quarter - 15 percent). Consolidated revenue in the 2025-quarter included \$11.8 million of motor rental revenue and \$0.4 million of revenue generated from the sale of motor equipment and parts (2024 - \$10 million and \$5.3 million, respectively).
- In the fourth quarter of 2025, adjusted EBITDA⁽¹⁾ was \$36.9 million, 20 percent of consolidated revenue⁽¹⁾ as compared to \$29.6 million, 17 percent of consolidated revenue, in the same 2024-quarter. Adjusted EBITDA in the 2025-quarter included \$0.1 million of cash-settled share-based compensation expense (2024 - \$2.2 million) and \$8.2 million of net gain on disposition of drilling equipment (2024 - \$6 million).
- Earnings in the 2025 three-month period were \$17.6 million, \$0.35 per share - diluted, as compared to \$14.1 million, \$0.30 per share - diluted, in the same 2024-period. Earnings in the 2025-period included a provision for income tax of \$0.2 million compared to \$1.7 million in the same 2024-period. Additionally, the 2025-quarter's earnings included depreciation and amortization expenses on drilling and other equipment of \$16.8 million (pre-tax) which is a 42

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percent increase when compared to the \$11.8 million (pre-tax) in the corresponding 2024-quarter. This increase is the result of ongoing fixed asset additions as well as \$3 million in additional depreciation relating to a change in the estimated useful life of certain primary components of motors.

- PHX Energy's US division's revenue in the fourth quarter of 2025 was \$131.8 million, mostly flat against the \$132.3 million generated in the fourth quarter of 2024. In comparison, the average number of active horizontal and directional rigs per day in the US industry declined by 7 percent quarter-over-quarter. US division revenue in the 2025-quarter represented 72 percent of consolidated revenue (2024 – 74 percent).
- PHX Energy's Canadian division reported \$52.1 million of quarterly revenue, 12 percent higher compared to \$46.3 million in the 2024-quarter. The fourth quarter was the division's most active in terms of RSS and this contributed to the revenue growth as the division has continued to expand its RSS presence in this market since establishing its own fleet at the beginning of the year. In comparison, in the 2025 three-month period, Canadian industry drilling days declined by 10 percent compared to the same 2024-period.
- For the three-month period ended December 31, 2025, the Corporation generated excess cash flow⁽²⁾ of \$29.8 million, after the impact of net capital expenditures⁽²⁾ of \$1.9 million (2024 - \$17.3 million and \$5.7 million, respectively).
- On December 15, 2025, the Corporation declared a dividend of \$0.20 per share⁽³⁾ or \$9.1 million, paid on January 15, 2026 to shareholders of record on December 31, 2025.

Year End Highlights

- For the fourth consecutive year the Corporation generated the highest level of annual consolidated revenue in its history. For the year ended December 31, 2025, PHX Energy generated consolidated revenue of \$709.6 million, which is 8 percent higher than the \$659.7 million generated in 2024. Consolidated revenue in the 2025-year included \$48.3 million of motor rental revenue (2024 - \$38.4 million) and \$4.3 million of revenue generated from the sale of motor equipment and parts (2024 – \$11.2 million). RSS activity in the 2025-year was also a record, with strong US activity and the addition of the Canadian division's owned fleet, RSS operating days increased 23 percent year-over-year. RSS operating days represented 16 percent of the Corporation's consolidated activity, an increase compared to 14 percent in 2024.
- In the 2025 twelve-month period, adjusted EBITDA⁽¹⁾ was \$132.8 million, 19 percent of consolidated revenue⁽¹⁾, as compared to \$123.7 million, 19 percent of consolidated revenue in the same 2024-period. This annual adjusted EBITDA result is the second highest in the Corporation's history, with the record being achieved in 2023. Included in

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the 2025-year's adjusted EBITDA is a net gain on disposition of drilling equipment of \$30.4 million (2024 - \$24.6 million) and cash-settled share-based compensation expense of \$4.7 million (2024 - \$11.8 million).

- In the 2025-year, earnings were \$54.7 million, \$1.13 per share – diluted, as compared to \$54.6 million, \$1.16 per share – diluted, in 2024. For the year-ended December 31, 2025, PHX Energy recorded a tax provision of \$10.8 million, a decrease compared to \$15.7 million in 2024. Additionally, depreciation and amortization expenses in the 2025 twelve-month period increased by 30 percent to \$58.3 million (pre-tax) from \$44.8 million (pre-tax) in 2024. This increase is the result of ongoing fixed asset additions as well as \$6 million in additional depreciation for the 2025-year relating to a change in the estimated useful life of certain primary components of motors.
- The Corporation's US division generated record annual revenue, which was supported by the highest RSS activity for any given year and increased motor rental revenue. US revenue in 2025 increased by 8 percent to \$516.2 million from \$479.5 million in 2024 and represented 73 percent of consolidated revenue (2024 – 73 percent). In comparison, the US rig count declined by 6 percent year-over-year.
- PHX Energy's Canadian division generated record annual revenue of \$193.4 million, an increase of 7 percent compared to \$180.2 million generated by the division in 2024. In comparison, the Canadian industry horizontal and directional drilling activity (as measured by drilling days) decreased by 7 percent year-over-year.
- For the year ended December 31, 2025, PHX Energy generated excess cash flow⁽²⁾ of \$69 million, after deducting net capital expenditures⁽²⁾ of \$30 million. As at December 31, 2025, the Corporation had a remaining balance \$8.7 million under the Return of Capital Strategy ("ROCS") target⁽²⁾.
- In the 2025 twelve-month period, through its Normal Course Issuer Bid ("NCIB"), the Corporation purchased and cancelled 379,000 common shares for \$3.3 million. Since the second quarter of 2017 to December 31, 2025, a total of 16.6 million common shares have been purchased and cancelled under PHX Energy's NCIB's. This represents 28 percent of common shares outstanding as of June 30, 2017.
- PHX Energy paid \$36.3 million in dividends in the 2025-year which is 3 percent lower than the dividend amount paid in 2024 due to NCIB repurchases and cancellation of shares throughout 2025 and is equivalent to 53 percent of excess cash flows⁽³⁾ for the year (2024 – 79 percent). In both years, dividends of \$0.80 per share⁽³⁾ were paid to shareholders. Since the reinstatement of the quarterly dividend program in December 2020, a total of \$134.6 million of dividends, approximately \$2.83 per share⁽³⁾, have been paid to shareholders to date.
- As at December 31, 2025, the Corporation had working capital⁽²⁾ of \$110.9 million and net debt⁽²⁾ of \$6.4 million.

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Financial Highlights

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

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Operating Results						
Revenue	183,892	178,676	3	709,598	659,663	8
Earnings	17,569	14,098	25	54,710	54,622	-
Earnings per share – diluted	0.35	0.30	17	1.13	1.16	(3)
Adjusted EBITDA ⁽¹⁾	36,869	29,638	24	132,812	123,734	7
Adjusted EBITDA per share – diluted ⁽¹⁾	0.80	0.63	27	2.88	2.63	10
Adjusted EBITDA as a percentage of revenue ⁽¹⁾	20%	17%		19%	19%	
Cash Flow						
Cash flows from operating activities	31,681	17,676	79	73,156	96,898	(25)
Funds from operations ⁽²⁾	29,309	24,305	21	104,603	99,695	5
Funds from operations per share – diluted ⁽³⁾	0.64	0.51	25	2.27	2.12	7
Dividends paid per share ⁽³⁾	0.20	0.20	-	0.80	0.80	-
Dividends paid	9,036	9,183	(2)	36,342	37,570	(3)
Capital expenditures	9,481	15,714	(40)	72,293	83,277	(13)
Excess cash flow ⁽²⁾	29,786	17,263	73	68,975	47,569	45
Financial Position, December 31,						
Working capital ⁽²⁾				110,910	84,545	31
Net debt (Net cash) ⁽²⁾				6,382	2,664	140
Shareholders' equity				229,043	222,205	3
Common shares outstanding				45,367,773	45,506,773	-

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Non-GAAP and Other Financial Measures

Throughout this MD&A, PHX Energy uses certain measures to analyze financial performance, financial position, and cash flow. These Non-GAAP and Other Specified Financial Measures do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP") and include Non-GAAP Financial Measures, Non-GAAP Ratios, Capital Management Measures and Supplementary Financial Measures (collectively referred to as "Non-GAAP and Other Financial Measures"). These Non-GAAP and Other Specified Financial Measures used by PHX Energy include adjusted EBITDA, adjusted EBITDA per share - diluted, adjusted EBITDA as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, funds from operations, excess cash flow, working capital, net debt (net cash), net capital expenditures, remaining balance under ROCS target, average consolidated revenue per day, average revenue per day, dividends paid per share, dividends declared per share, dividends paid as a percentage of excess cash flows, effective tax rate, and funds from operations per share - diluted. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and may be used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable.

Readers are cautioned that the MD&A should be read in conjunction with the section entitled "Non-GAAP and Other Financial Measures" at the end of this MD&A on pages 56 to 63 hereof for applicable definitions, rationale for use, method of calculation and reconciliations where applicable as well as the section entitled "Cautionary Statement Regarding Forward-Looking Information and Statements".

Outlook

We are proud of our 2025 operational and financial performance despite a weaker industry backdrop and a volatile cost environment. The strength and composition of our premium technology fleet, combined with best-in-class technical support, allowed us to navigate lower rig counts effectively. The first quarter of 2026 has built on the momentum established in the fourth quarter of 2025, marked by increased RSS deployment in both Canada and the US and a sustained strong market share.

Strategic Priorities for 2026

Create Shareholder Value - Continue our proven track record of leveraging our operational excellence to create meaningful shareholder returns through our ROCS.

- The Board has declared a special cash dividend of \$0.20 per common share, payable on April 1, 2026 to shareholders of record at the close of business on March 16, 2026. We believe now is an opportunistic time to reward shareholders and this special dividend reflects our strong operational results and solid balance sheet performance over the past 5 years, our commitment to rewarding shareholders while investing in growth, and our confidence in our 2026 outlook. Additionally, it reinforces how the mechanism of ROCS provides an attractive opportunity to enhance the value to our shareholders when the prevailing market price does not reflect the underlying value of our common shares.
- By establishing a capital allocation strategy that includes a target of returning up to 70 percent of excess cash flow⁽²⁾ to shareholders we differentiate ourselves as an oilfield services investment. Since 2020 we have paid \$134.6 million of dividends to shareholders and repurchased 28 percent of common shares outstanding as of June 30, 2017. Going into 2026, we intend to sustain this unique position through the mechanisms of ROCS including our base dividend program, NCIB and other mechanisms, such as this special dividend, if opportunistic.

Technology Leadership - We will continue investing in advanced technologies to ensure our fleet evolves alongside increasingly complex drilling programs.

- RSS and Real-Time RSS Communications technologies remain key differentiators as operators intensify their focus on drilling efficiency. In 2026, one of our core engineering priorities will be advancing the maturity of our Real-Time Communications fleet while further expanding RSS capabilities.
- In late 2025, we added a 7⅞" RSS tool to our fleet in the US to meet evolving client demand. This investment positions us favorably, as currently we are among a limited number of providers offering this emerging tool size.
- A focus on downhole data capabilities is regaining prominence, with customers demanding broader data sets and faster transmission speeds. With our engineering group continually developing commercial technologies,

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enhancements to Velocity's unified telemetry have doubled the rate at which real-time downhole data is transmitted to the surface. It is this continued investment in evolving our technology that maintains our competitive advantage.

Deliver Operational Efficiencies - Operators continue to seek greater operational efficiency, which includes longer horizontal ("lateral") sections many of which reach up to 4 miles in length

- Our integrated technology suite is critical to executing longer and more complex well profiles, including U-turn and J-wells. The capital and technical barriers to deploying a full RSS-enabled fleet limit top-tier competition. Our strategic initiatives over the last decade have propelled us into this top tier and this has benefited us in establishing the strong relationships we have with major operators who represent a large portion of the rig count. As lower rig counts persist, we believe our continued focus on high performance technologies and services will continue to provide market share gains.

Diversification of Regional and Client Exposure - We will continue strengthening our regional footprint and broadening our customer base.

- Our targeted focus in core basins—particularly the Permian and Montney/Duvernay- has driven sustained, record-level performance in both Canada and the US. While these basins remain a priority given their high rig concentration, we also recognize growth opportunities in select basins, such as the Haynesville, Marcellus and Clearwater, and are allocating resources to thoughtfully expand our presence in these markets.
- Ongoing E&P consolidation has reduced the number of operators while increasing their scale. We are proud to support most of these leading producers and remain well positioned to grow alongside them while we look to expand our client base to reduce risks associated with one customer representing a significant portion of activity.

Protecting Margins in a Volatile Environment

- Uncertainty related to global trade dynamics and the broader geopolitical landscape continues to create cost and supply chain pressures. As we navigate tariffs, inflation, and ongoing market volatility, we are proactively preserving margins through strategic sourcing initiatives, disciplined supplier negotiations, and continued cost control.
- We expect elements of this higher-cost environment to persist into 2026 and remain focused on improving profitability. While commodity price volatility has introduced some pricing pressure, we are committed to protecting returns by emphasizing technology differentiation, service quality, and value-based customer partnerships.
- Allocating capital expenditures to high-margin business lines will help mitigate ongoing cost pressures. Our Atlas motor rentals in the US and Canada grew in 2025, and we are continuing to invest resources to sustain this momentum. Expanding RSS activity in Canada, leveraging the increased capacity in our fleet, will also remain a key focus in 2026 as more operators adopt this technology.

Our capital allocation strategy remains focused on funding strategic capital expenditures that will enable our technology and market share leadership, sustaining a balance sheet with relatively low debt levels, and rewarding shareholders through ROCS with the continued optionality of including the base dividend program, potential share buy backs, and potential special dividends.

Michael Buker, President & CEO

February 24, 2026

About PHX Energy Services Corp.

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

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

As at December 31, 2025, PHX Energy had 971 full-time employees (2024 – 924) and the Corporation utilized over 148 additional field consultants in 2025 (2024 – over 139).

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

Overall Performance

In the final quarter of 2025, weaker industry environment persisted with both the US and Canadian industries' activity softening compared to the same quarter in 2024. Despite this, both the US and Canadian divisions outperformed industry activity trends and as a result, PHX Energy generated consolidated revenue of \$183.9 million, its highest level of fourth quarter revenue on record and a 3 percent increase from the \$178.7 million reported in the 2024-quarter.

For the three-month period ended December 31, 2025, the Corporation's US division's revenue was mostly flat at \$131.8 million compared to \$132.3 million in the same 2024-period. PHX Energy's US operating days saw a modest increase of 2 percent to 4,525 days in the 2025 three-month period from 4,438 in the same 2024-period while the US industry's rig count declined by 7 percent quarter-over-quarter. For the three-month period ended December 31, 2025, RSS activity represented 22 percent of the division's operating days, the same level as in the 2024-period. The US division's average revenue per day⁽³⁾ for directional drilling services, in both local and reporting currency, was flat against the same 2024 three-month period. The Corporation's US motor rental activity also showed resilience to the slower market environment and US motor rental revenue increased to \$11.4 million from \$9.2 million in the same period in 2024. In the 2025-quarter, the US division generated \$0.4 million of revenue from motor equipment and parts sold (2024-quarter - \$5.3 million). Revenue from the Corporation's US division in the fourth quarter of 2025 represented 72 percent of consolidated revenue (2024 – 74 percent).

Canadian division revenue in the 2025 three-month period grew to \$52.1 million, a 12 percent increase from \$46.3 million in the same 2024-period. The Canadian segment recorded 3,302 operating days in the 2025-quarter, a 2 percent decrease from the 3,369 operating days realized in the comparable 2024-quarter, but a smaller decrease compared to the 10 percent decline in Canadian industry horizontal and directional drilling days quarter-over-quarter. In the last quarter of 2025, RSS activity increased to 12 percent of the Canadian segment's operating days from 5 percent in the same 2024-quarter. As a result, average revenue per day⁽³⁾ realized by the Canadian division increased by 16 percent to \$15,640 in the 2025-quarter, as compared to \$13,538 in the corresponding 2024-quarter. The Corporation's Canadian motor rental division generated \$0.5 million of revenue in the 2025-period (2024 - \$0.8 million).

In the 2025-quarter, earnings were \$17.6 million (2024 - \$14.1 million), adjusted EBITDA⁽¹⁾ was \$36.9 million (2024 - \$29.6 million), and adjusted EBITDA as a percentage of consolidated revenue⁽¹⁾ was 20 percent (2024 – 17 percent). For the three-month period ended December 31, 2025, the Corporation recorded a tax provision of \$0.2 million, a decrease compared to \$1.7 million in the 2024-period. In addition, earnings in the 2025-period included depreciation and amortization expenses on drilling and other equipment of \$16.8 million (pre-tax) which increased by 42 percent as compared to \$11.8 million (pre-tax) in

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the corresponding 2024-period. This increase is the result of fixed asset additions throughout 2025 as well as \$3 million in additional depreciation relating to a change in the estimated useful life of certain primary components of motors. Included in the 2025 three-month period adjusted EBITDA is cash-settled share-based compensation expense of \$0.1 million (2024 - \$2.2 million) and net gain on disposition of drilling equipment of \$8.2 million (2024 - \$6 million).

For the year ended December 31, 2025, for the fourth consecutive year the Corporation achieved the highest annual revenue in its history, \$709.6 million, an increase of 8 percent compared to \$659.7 million in 2024. Record RSS activity and strong motor rental activities were key contributing factors to this achievement. Particularly, in the twelve-month period of 2025, RSS activity represented 16 percent of PHX Energy's consolidated operating days, an increase compared to 14 percent in 2024, and consolidated motor rental revenue increased to \$48.3 million from \$38.4 million in 2024.

Earnings for the 2025-year were \$54.7 million (2024 - \$54.6 million) and adjusted EBITDA⁽¹⁾ was \$132.8 million, 19 percent of consolidated revenue⁽¹⁾ (2024 - \$123.7 million, 19 percent of consolidated revenue). In the 2025-year, the Corporation recorded a tax provision of \$10.8 million, a decrease compared to \$15.7 million in 2024. Additionally, depreciation and amortization expenses increased by 30 percent to \$58.3 million (pre-tax) from \$44.8 million (pre-tax) in 2024. This increase is the result of ongoing fixed asset additions as well as \$6 million in additional depreciation for the 2025-year relating to a change in the estimated useful life of certain primary components of motors. Included in the 2025 twelve-month period's adjusted EBITDA is \$30.4 million of net gain on disposition of drilling equipment (2024 - \$24.6 million) and cash-settled share-based compensation expense of \$4.7 million (2024 - \$11.8 million).

As at December 31, 2025, the Corporation had working capital⁽²⁾ of \$110.9 million and net debt⁽²⁾ of \$6.4 million. The Corporation also has CAD \$74 million and USD \$25 million available to be drawn from its credit facilities at the end of the 2025-year.

Dividends and ROCS

On December 15, 2025, the Corporation declared a dividend of \$0.20 per share⁽³⁾ payable to shareholders of record on December 31, 2025. An aggregate of \$9.1 million was paid on January 15, 2026.

The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") which targets up to 70 percent of annual excess cash flow⁽²⁾ to be used for shareholder returns and includes multiple options including the dividend program and the NCIB. For the year ended December 31, 2025, excess cash flow increased primarily due to

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lower capital expenditures and higher proceeds on disposition of drilling equipment. The Corporation continued to prioritize shareholder returns while protecting its financial position, and in the 2025-year, maintained its current level of dividends, paying \$36.3 million in dividends to shareholders, and repurchased and cancelled 379,000 common shares for \$3.3 million under the Corporation's NCIB. For the year-ended December 31, 2025, the remaining balance under ROCS target⁽²⁾ was \$8.7 million.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Excess cash flow	29,786	17,263	68,975	47,569
Targeted 70% of excess cash flow under ROCS	20,850	12,084	48,283	33,298
Deduct:				
Dividends paid to shareholders	(9,036)	(9,183)	(36,342)	(37,570)
Repurchase of shares under the NCIB	-	(4,859)	(3,250)	(20,614)
Remaining balance under ROCS target ⁽²⁾	11,814	(1,958)	8,691	(24,886)

As part of PHX Energy's commitment rewarding shareholders through ROCS, the Board has declared a special cash dividend of \$0.20 per common share, designated as an "eligible dividend" within the meaning of subsection 89(1) of the Income Tax Act (Canada), payable on April 1, 2026 to shareholders of record at the close of business on March 16, 2026. This special dividend reflects the Corporation's track record of rewarding shareholders as it had intended when the ROCS program was established while continuing to invest in operational growth. Given that the Corporation ended the year below our ROCS target of returning up to 70 percent of excess cash flow⁽²⁾ our Board determined to further reward shareholders with this special dividend in addition to the regular quarterly dividend.

Normal Course Issuer Bid ("NCIB")

During the third quarter of 2025, the TSX approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 4,035,757 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 5, 2025. The NCIB commenced on August 18, 2025 and will terminate on August 17, 2026. Purchases of common shares may be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the previous NCIB, 379,000 common shares were purchased by the Corporation and cancelled for \$3.3 million in the year ended December 31, 2025 (2024 – 2,141,232 common shares were purchased and cancelled for \$20.6 million). No common shares have been purchased to date under the current NCIB.

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It is the Corporation's intention to continue the current strategy of leveraging the NCIB at opportunistic times as a tool to further reward shareholders under ROCS especially during times of market industry weaknesses.

Capital Spending

For the year ended December 31, 2025, the Corporation spent \$72.3 million in capital expenditures, of which \$49 million was spent on growing the Corporation's fleet of drilling equipment, \$16.6 million was spent to replace retired assets, and \$6.7 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of \$42.3 million, the Corporation's net capital expenditures⁽²⁾ for the 2025-year were \$30 million. Capital expenditures in the 2025-year were primarily directed towards RSS, both PowerDrive Orbit and iCruise and the Corporation's proprietary Real-Time RSS Communications technologies, Velocity Real-Time systems ("Velocity"), and Atlas High Performance motors ("Atlas"). PHX Energy funded capital spending primarily using proceeds on disposition of drilling equipment, cash flows from operating activities, and its credit facilities when required.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Growth capital expenditures	6,362	13,580	48,959	73,378
Maintenance capital expenditures from asset retirements	1,032	-	16,634	5,289
Maintenance capital expenditures to replace downhole equipment losses	2,087	2,134	6,700	4,610
Total capital expenditures	9,481	15,714	72,293	83,277
Deduct:				
Proceeds on disposition of drilling equipment	(11,354)	(10,057)	(42,286)	(36,741)
Net capital expenditures ⁽²⁾	(1,873)	5,657	30,007	46,536

As at December 31, 2025, the Corporation had capital commitments to purchase drilling and other equipment for \$41.4 million, \$18.1 million of which is growth capital allocated as follows: \$7.8 million for RSS systems, \$7.6 million for performance drilling motors, \$2.6 million for Velocity systems, and \$0.1 million for other equipment. Equipment on order as at December 31, 2025 is expected to be delivered within the first half of 2026.

The Board approved a preliminary 2026 capital expenditure program of \$60 million, of which approximately 40 percent is anticipated to be spent on growth. The growth portion is expected to be directed toward continuing to expand PHX Energy's high margin technologies, including RSS and supporting greater activity in the Atlas motor rental division. The remainder is

⁽²⁾ Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations.

The Corporation currently possesses approximately 915 Atlas motors, comprised of various configurations including its 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", and 9.00" Atlas motors, and 127 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 113 RSS tools. The size and diversity of PHX Energy's RSS fleet creates unique competitive advantages in that it is comprised of both the PowerDrive Orbit and iCruise systems, includes its proprietary Real-Time RSS Communications technology for both systems and is one of the only fleets today to have a 7 7/8" RSS tool along with the traditional RSS tool sizes.

Key Drivers of the Corporation's Business

PHX Energy considers the following to be the key drivers of its business:

- World demand for natural gas and oil commodities directly affect oil and natural gas prices and drilling activity levels. These in turn have a direct impact on the Corporation's customers' level of cash flows and their ability to fund capital drilling programs with the use of cash flow, debt or equity financing, ultimately impacting PHX Energy's activity levels.
- New drilling technologies must be continually developed for the Corporation to further expand and meet the ongoing demands from its customers, oil and natural gas producing companies, for greater operating efficiencies.
- Superior customer service and satisfaction must be delivered and achieved consistently in order to retain business.
- The Corporation must attract, train and retain key personnel in order to ensure future growth.

Key Performance Measures

There are several performance measures that are used by the Corporation to assess its performance relative to its strategies and goals, the most significant of which are:

- Adjusted EBITDA⁽¹⁾ and adjusted EBITDA as a percentage of revenue⁽¹⁾;
- gross profit;
- net debt (net cash) ⁽²⁾;
- excess cash flow ⁽²⁾;
- the reliability of the Corporation's equipment and ability to provide high quality services in the field;
- market share retention and growth; and,
- health and safety performance targets.

⁽¹⁾ Non-GAAP financial measure or ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

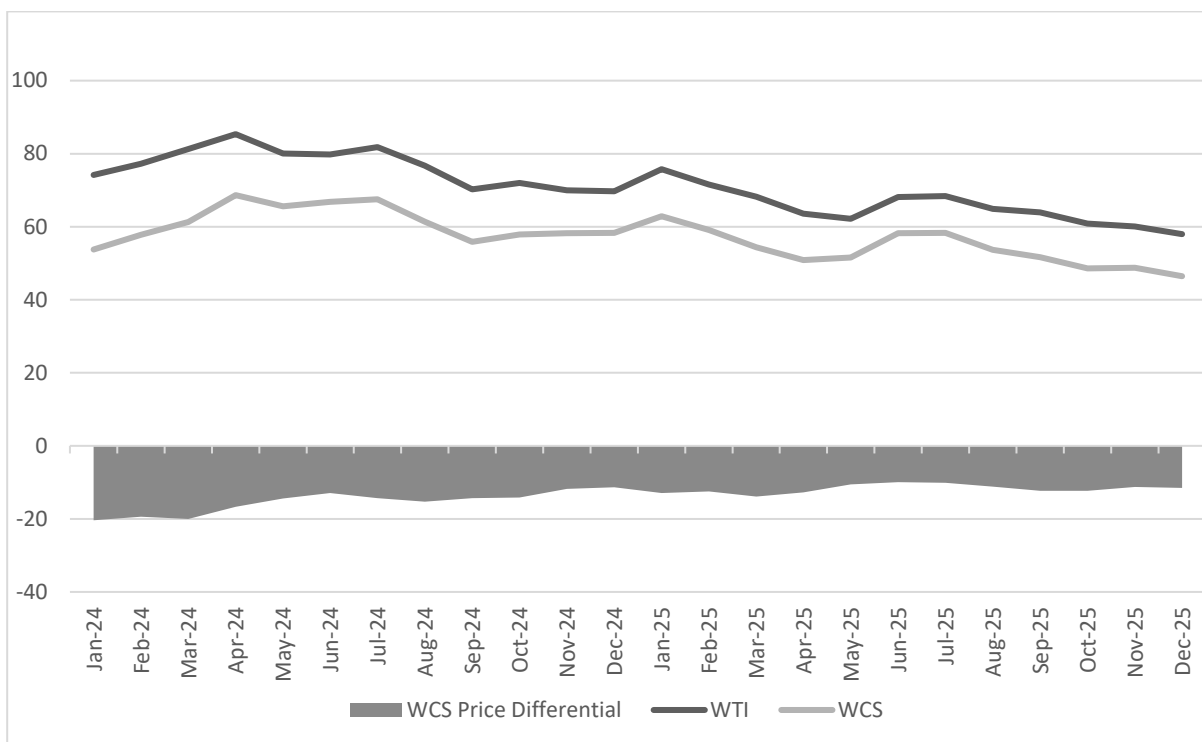
⁽²⁾ Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

Industry Activity and Statistics

In 2025, oil commodity price volatility continued and this uncertainty and global events led to declines throughout the year. The average Western Texas Intermediate (“WTI”) price was 15 percent lower in 2025 at approximately USD \$65 per barrel for the year (2024 – USD \$76). The average price of Western Canadian Select (“WCS”) was 12 percent lower in 2025 at approximately USD \$54 per barrel (2024 – USD \$61). The average differential between WTI and WCS was slightly lower compared to the prior year and was USD \$11.76 per barrel in 2025 (2024 - \$15.42) (Source: Alberta Government Economic Dashboard – <https://economicdashboard.alberta.ca/OilPrice>).

WTI and WCS Crude Oil and WCS Differential (\$US/bbl)

Source: Alberta Government Economic Dashboard – <https://economicdashboard.alberta.ca/OilPrice>

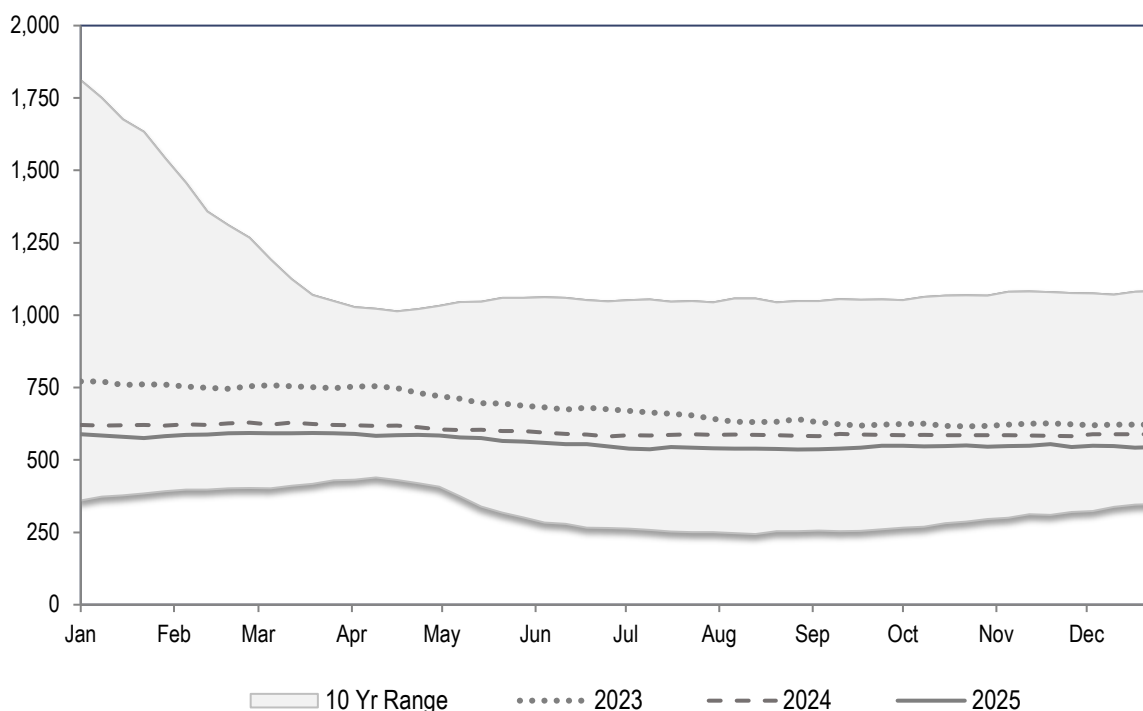


Natural gas commodity prices strengthened in 2025. The Henry Hub spot price averaged USD \$3.52 per gigajoule in 2025 (2024 – USD \$2.19) while AECO-C spot averaged CAD \$1.69 per gigajoule in 2025 (2024 – CAD \$1.40). (Source: EIA Natural Gas data, <https://www.eia.gov/dnav/ng/hist/mgwwhdA.htm>; Peters & Co Limited, Energy Update 01-20-2026).

US Industry

US Active Drilling Rig Count

Baker Hughes, North American Rotary Rig Count, New Report, <https://rigcount.bakerhughes.com/na-rig-count>

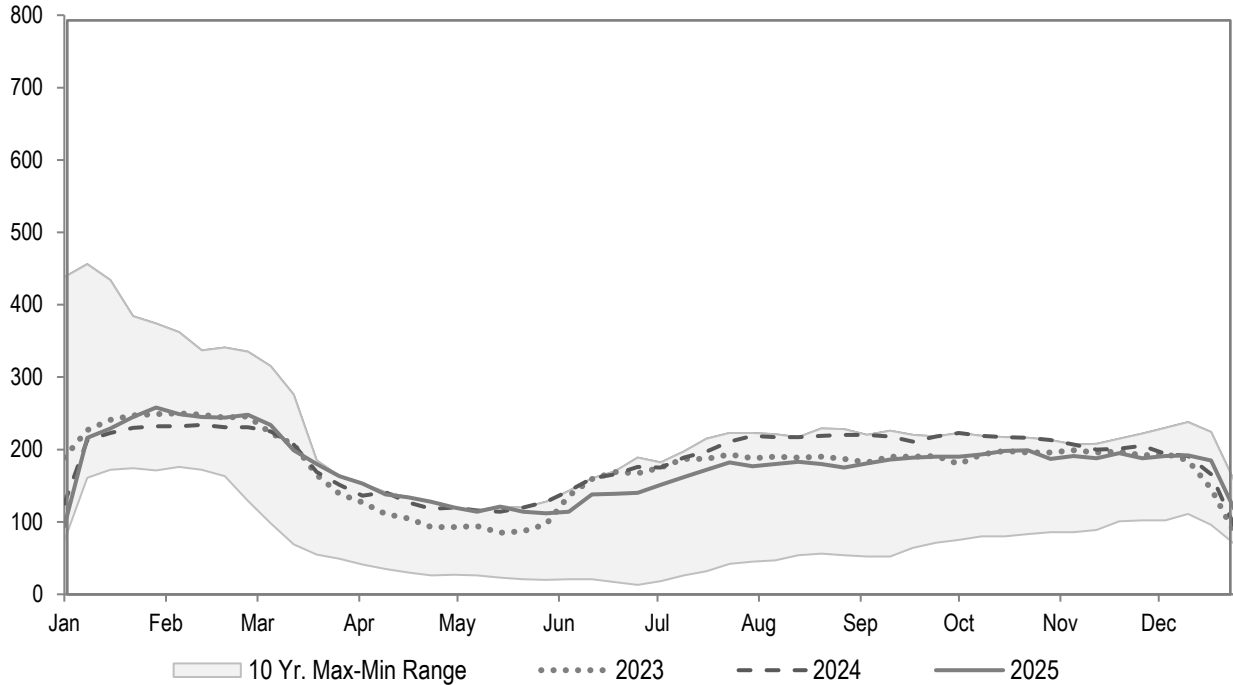


The US rig count in 2025 declined 6 percent annually to an average of 533 horizontal and directional rigs operating per day in the 2025-year, as compared to an average of 566 horizontal and directional rigs in 2024. When compared to the 5-year average rig count 2025 was 8 percent lower than the average of 579 rigs per day. The Permian basin remained the most active area in the US representing approximately half of all the rigs operating nationally. The Permian basin saw a slightly higher decline than the overall trend and the rig count contracted 8 percent, averaging 284 active rigs per day (2024 – 308 active rigs per day). Horizontal and directional drilling continued to represent a majority, 98 percent, of active rigs (2024 – 97 percent). (Source: Baker Hughes, North American Rotary Rig Count, New Report, <https://rigcount.bakerhughes.com/na-rig-count>).

Canadian Industry

WCSB Active Drilling Rig Count

Source: Baker Hughes, North American Rotary Rig Count, New Report, <https://rigcount.bakerhughes.com/na-rig-count>



The Canadian market's activity in 2025 contracted compared to the previous year, with an average of 176 active rigs per day. This level of activity is 5 percent less than the 185 rigs operating on average in 2024 and is 13 percent greater than the 5-year average of 156 active rigs. Horizontal and directional drilling continues to be the norm in the industry, and combined, horizontal and directional drilling represented 97 percent of the total 2025 industry drilling days (2024 – 92 percent). (Source: Daily Oil Bulletin, hz-dir days 251231 and Baker Hughes, North American Rotary Rig Count, New Report, <https://rigcount.bakerhughes.com/na-rig-count>).

Results of Operations

Three-Month Period and Year Ended December 31, 2025

Revenue

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Directional drilling services	171,644	163,392	5	657,014	609,994	8
Motor rental	11,838	9,966	19	48,271	38,436	26
Sale of motor equipment and parts	410	5,318	(92)	4,313	11,233	(62)
Total revenue	183,892	178,676	3	709,598	659,663	8

In 2025, PHX Energy achieved its highest level of fourth quarter and annual revenue in its history. Consolidated revenue in the last quarter of 2025 increased by 3 percent to \$183.9 million compared to \$178.7 million in the corresponding 2024-quarter and annual consolidated revenue increased by 8 percent to \$709.6 million compared to \$659.7 million in 2024.

In the final quarter of 2025, softer industry conditions persisted and both the US and Canadian industry rig counts were lower compared to the same quarter in 2024. The average number of horizontal and directional rigs operating per day in the US declined by 7 percent to 516 in the 2025 three-month period from 555 in the corresponding 2024-period. In Canada, industry horizontal and directional drilling activity (as measured by drilling days) was 14,881 days in the 2025-quarter, a 10 percent decrease from 16,498 days in the same 2024-quarter. In comparison, the Corporation's consolidated operating days increased marginally to 7,826 days in the 2025-quarter from 7,807 days in the 2024-quarter.

For the year-ended December 31, 2025, PHX Energy recorded 30,687 consolidated operating days which is 3 percent more than the 29,877 days in the 2024-year. The US rig count and the Canadian industry horizontal and directional drilling activity (as measured by drilling days) declined by 6 percent and 7 percent, respectively, year-over-year.

Average consolidated revenue per day⁽³⁾ for directional drilling services improved by 5 percent in both 2025-periods to \$21,932 in the 2025-quarter (2024 – \$20,930) and to \$21,410 in the 2025-year (2024 – \$20,418). These improvements were largely

⁽³⁾ Supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

driven by customers' increased utilization of PHX Energy's premium technologies particularly RSS and Real-Time RSS Communications technologies. RSS activity was strong and represented 18 percent of the Corporation's consolidated activity in the 2025-quarter (2024 – 15 percent) and 16 percent in the 2025-year (2024 – 14 percent).

In the 2025 three and twelve-month periods, revenue generated by PHX Energy's Atlas motor rental division increased by 19 percent to \$11.8 million (2024 - \$10 million) and 26 percent to \$48.3 million (2024 - \$38.4 million), respectively. Throughout the year, the Corporation's US motor rental division successfully grew its client base through increased marketing efforts and additional resources dedicated to support the division.

For the three-month period and year ended December 31, 2025, revenue of \$0.4 million and \$4.3 million, respectively, were generated from the sale of motor equipment and parts (2024 – \$5.3 million and \$11.2 million). Due to the intermittent and cyclical nature of the customers' ordering frequency, it is expected that revenue from this line of business will fluctuate between periods.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Direct costs	155,137	148,003	5	598,634	535,169	12
Depreciation & amortization drilling and other equipment (included in direct costs)	16,793	11,846	42	58,321	44,822	30
Depreciation & amortization right-of-use asset (included in direct costs)	843	867	(3)	3,456	3,787	(9)
Gross profit as a percentage of revenue excluding depreciation & amortization ⁽¹⁾	25%	24%		24%	26%	

Direct costs are comprised of field and shop expenses, costs of motors and parts sold, and include depreciation and amortization of the Corporation's equipment and right-of-use assets. For the three-month period ended December 31, 2025, direct costs increased by 5 percent to \$155.1 million from \$148 million in the same 2024-period. For the year-ended December 31, 2025, direct costs increased by 12 percent to \$598.6 million from \$535.2 million in 2024.

For the three and twelve-month periods of 2025, the Corporation's depreciation and amortization on drilling and other equipment increased by 42 percent and 30 percent, respectively, mainly as a result of the additions to fixed assets throughout 2025 and a change in the estimated useful lives of certain major components of motors that was effective September 1, 2025

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which resulted in \$3 million of additional depreciation recorded in the 2025-quarter and \$6 million in the year. Apart from higher depreciation and amortization expenses on drilling and other equipment, higher direct costs in both 2025-periods primarily resulted from greater costs of equipment parts and services which were impacted by several factors including inflation, tariffs implemented late in the first quarter of 2025, and servicing and rental costs related to higher RSS activity.

For the three-month period ended December 31, 2025, gross profit as a percentage of revenue excluding depreciation and amortization⁽¹⁾ increased to 25 percent from 24 percent in the same 2024-period. Included in direct costs in the 2024-period was a \$2.2 million write-down of inventory to its net realizable value. For the year ended December 31, 2025, gross profit as a percentage of revenue excluding depreciation and amortization⁽¹⁾ declined to 24 percent from 26 percent in 2024. The decrease in profitability was mainly due to rising equipment servicing costs and lower revenue from the sale of motor equipment and parts.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Selling, general and administrative ("SG&A") costs	15,984	17,567	(9)	64,460	68,294	(6)
Cash-settled share-based compensation (included in SG&A costs)	111	2,190	(95)	4,732	11,774	(60)
Equity-settled share-based compensation (included in SG&A costs)	48	59	(19)	405	480	(16)
SG&A costs excluding share-based compensation as a percentage of revenue ⁽¹⁾	9%	9%		8%	8%	

For the three-month period and year ended December 31, 2025, SG&A costs decreased to \$16 million and \$64.5 million, respectively, from \$17.6 million and \$68.3 million in the corresponding 2024-periods. In both 2025-periods, the decrease in SG&A costs was mainly due to lower cash-settled share-based compensation expense.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three-month period and year ended December 31, 2025, the related compensation expense recognized by PHX Energy was \$0.1 million (2024 - \$2.2 million) and \$4.7 million (2024 - \$11.8 million), respectively. Changes in cash-settled share-based compensation expense in the 2025-periods were mainly driven by fluctuations in the Corporation's share price, estimated payout multipliers, and the number of awards granted in the period. There were 1,546,632 retention awards outstanding as at December 31, 2025 (2024 - 1,599,094). SG&A costs excluding share-based compensation as a percentage of revenue⁽¹⁾ were flat period-over-period at 9 percent and 8 percent in the three and twelve-month periods ended December 31, 2025, respectively (2024 - 9 percent and 8 percent, respectively).

⁽¹⁾ Non-GAAP financial measure or ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Research and development expense	1,685	1,333	26	6,816	5,337	28

For the three-month period and year ended December 31, 2025, PHX Energy spent \$1.7 million and \$6.8 million on research and development (“R&D”) expenditures, an increase of 26 and 28 percent as compared to \$1.3 million and \$5.3 million spent in the corresponding 2024-periods. Greater R&D expenditures in the 2025-periods were largely driven by rising personnel related costs and increased prototype and equipment repair parts incurred to support key R&D initiatives.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Finance expense	747	527	42	2,921	1,948	50
Finance expense lease liabilities	460	512	(10)	1,921	2,213	(13)

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period and year ended December 31, 2025, finance expense increased to \$0.7 million and \$2.9 million, respectively (2024 - \$0.5 million and \$1.9 million). The increase in finance expenses in both 2025-periods was primarily due to higher drawings on the credit facilities in the periods.

Finance expense lease liabilities relate to interest expense incurred on lease liabilities. For the three and twelve-month periods ended December 31, 2025, finance expense lease liabilities decreased to \$0.5 million and \$1.9 million, respectively (2024 - \$0.5 million and \$2.2 million), due to leases that expired in 2025.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Net gain on disposition of drilling equipment	8,203	6,021	30,383	24,648
Foreign exchange losses	(247)	(946)	(205)	(1,070)
Provision for bad debts	(198)	-	(198)	-
Miscellaneous other income	89	-	707	-
Other income	7,847	5,075	30,687	23,578

For the three-month period and year ended December 31, 2025, the Corporation recognized other income of \$7.8 million and \$30.7 million, respectively (2024 - \$5.1 million and \$23.6 million, respectively). In both periods, other income was mainly comprised of net gain on disposition of drilling equipment. The recognized gain is net of losses, which typically result from

asset retirements that were made before the end of the equipment's useful life. In the 2025-quarter and year, more instances of high dollar valued downhole equipment losses occurred as compared to the corresponding 2024-periods resulting in higher levels of net gain on disposition of drilling equipment recognized.

Foreign exchange losses of \$0.3 million and \$0.2 million in the three and twelve-month periods of 2025 (2024 – \$0.9 million and \$1.1 million), were primarily due to the revaluation and settlement of CAD-denominated intercompany payables in the US.

In the final quarter of 2025, PHX Energy provisioned \$0.2 million for bad debts which relates to one client in the US and one client in Canada.

In the 2025 three and twelve-month periods, the miscellaneous other income of \$0.1 million and \$0.7 million, respectively, pertain to sundry and occasional transactions such as proceeds from the sale of scrapped metal and machining services for a third party.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Provision for (Recovery of) income taxes	157	1,711	10,823	15,658
Effective tax rates ⁽³⁾	1%	11%	17%	22%

For the three-month period and year ended December 31, 2025, the Corporation reported a provision for income tax of \$0.2 million (2024 – \$1.7 million), and \$10.8 million (2024 - \$15.7 million), respectively. PHX Energy's effective tax rate⁽³⁾ of 1 percent in the 2025-quarter and 17 percent in the 2025-year are lower than the combined US federal and state corporate income tax rate of 22.5 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent. In the 2025-periods, lower provision for income taxes are primarily attributable to the recognition and utilization of previously unrecognized deferred tax assets in the Luxembourg jurisdiction and recovery of income taxes relating to prior periods.

⁽³⁾ Supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

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

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Operating Results						
Earnings	17,569	14,098	25	54,710	54,622	-
Earnings per share – diluted	0.35	0.30	17	1.13	1.16	(3)
Adjusted EBITDA ⁽¹⁾	36,869	29,638	24	132,812	123,734	7
Adjusted EBITDA per share – diluted ⁽¹⁾	0.80	0.63	27	2.88	2.63	10
Adjusted EBITDA as a percentage of revenue ⁽¹⁾	20%	17%		19%	19%	

For the three-month period ended December 31, 2025, the Corporation's earnings increased by 25 percent to \$17.6 million from \$14.1 million in the 2024-period and adjusted EBITDA increased by 24 percent to \$36.9 million, 20 percent of revenue, from \$29.6 million, 17 percent of revenue, in the corresponding 2024-quarter. Contributing to the 2025-quarter's improved earnings and adjusted EBITDA are lower cash-settled share-based compensation expenses and higher net gain on disposition of drilling equipment.

Earnings for the year ended December 31, 2025 of \$54.7 million were flat against earnings of \$54.6 million in 2024. Flat earnings despite higher revenues in the 2025 twelve-month period were largely due to higher depreciation and amortization expenses on drilling and other equipment. In the 2025-year, \$6 million in additional depreciation was recognized relating to a change in the estimated useful life of certain primary components of motors. For the year-ended December 31, 2025, adjusted EBITDA⁽¹⁾ increased by 7 percent to \$132.8 million, 19 percent of revenue, from \$123.7 million, 19 percent of revenue, in 2024. The adjusted EBITDA achieved in the 2025-year was the second highest in the Corporation's history, with the record being achieved in 2023. Included in the 2025 twelve-month period's adjusted EBITDA is \$30.4 million of net gain on disposition of drilling equipment (2024 - \$24.6 million) and cash-settled share-based compensation expense of \$4.7 million (2024 - \$11.8 million).

⁽¹⁾ Non-GAAP financial measure or ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

Segmented Information

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

United States

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Directional drilling services	120,008	117,811	2	466,187	431,675	8
Motor rental	11,356	9,213	23	45,724	36,557	25
Sale of motor equipment and parts	410	5,318	(92)	4,313	11,233	(62)
Total revenue	131,774	132,342	-	516,224	479,465	8
Direct costs	110,107	108,155	2	435,072	384,878	13
Gross profit	21,667	24,187	(10)	81,152	94,587	(14)
Expenses:						
Selling, general and administrative expenses	8,009	8,283	(3)	30,709	30,746	-
Research and development expenses	-	-	-	-	-	-
Finance expense	-	-	-	-	-	-
Finance expense lease liability	162	200	(19)	706	943	(25)
Other income	(5,865)	(2,548)	130	(24,019)	(16,286)	47
Reportable segment profit before income taxes	19,361	18,252	6	73,756	79,184	(7)

For the three-month period ended December 31, 2025, PHX Energy's US division generated revenue of \$131.8 million, flat against the \$132.3 million generated in the fourth quarter of 2024. For the year ended December 31, 2025, the Corporation's US division achieved its highest annual revenue, \$516.2 million, which is 8 percent higher than \$479.5 million in 2024.

In 2025, PHX Energy's US operations thrived by leveraging the strong reputation of its premium technologies and operational expertise, and through increasing fleet capacity to gain market share despite continued weak industry activity. In the fourth quarter of 2025, the average number of active horizontal and directional rigs per day in the US industry declined by 7 percent to 516 compared to an average of 555 rigs per day in the 2024-quarter. In comparison, the Corporation's US operating days increased by 2 percent to 4,525 days from 4,438 days in the 2024-quarter. The US division's RSS activity represented 22 percent of its operating days in both 2025 and 2024-quarters. For the year ended December 31, 2025, the average number of

horizontal and directional rigs running on a daily basis in the US industry decreased by 6 percent to 533 rigs from 566 rigs in 2024. In comparison, the US segment's operating days were 17,845 in the 2025-year compared to 16,667 in 2024; an increase of 7 percent. The US division's annual RSS activity was the highest it has ever achieved and represented 22 percent of its annual operating days (2024 - 21 percent).

With directional and horizontal drilling being the norm for over a decade, operators are now focused on increased efficiency of their drilling program, which includes drilling longer lateral sections and in some basins more complex horizontal well designs known as U-turn and J wells. The Corporation's fleet and expertise are well suited for these longer and more complex well designs and the US division has been actively drilling these well types in 2025. During the 2025-year, the US division was active in the Permian, Eagleford, Scoop/Stack, Uinta, Haynesville, DJ, Fayetteville, and Marcellus basins. Additionally, the Corporation was involved with carbon capture and gas storage projects in Indiana, Michigan, New York, Louisiana and Texas.

For the three-month period ended December 31, 2025, the US division's average revenue per day⁽³⁾ for directional drilling services was flat at \$26,524 compared to \$26,546 in the 2024-quarter. For the year ended December 31, 2025, average revenue per day for directional drilling services of \$26,125 was virtually the same level as the \$25,901 reported in 2024. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services was also mostly flat in both 2025-periods.

Despite the slow industry environment, the Corporation's US division grew its motor rental activities and revenue in both 2025-periods. With added resources dedicated to this line of business, the Corporation's US motor rental division successfully grew its client base. For the three-month period and year ended December 31, 2025, US motor rental revenue increased by 23 percent and 25 percent, respectively, to \$11.4 million in the 2025-quarter and \$45.7 million in the 2025-year (2024 - \$9.2 million and \$36.6 million, respectively).

In the three and twelve-month periods of 2025, PHX Energy's US operations generated \$0.4 million and \$4.3 million of revenue from the sale of motors and parts compared to \$5.3 million and \$11.2 million in the corresponding 2024-periods. Due to the intermittent and cyclical nature of the customers' ordering frequency, it is expected that revenue from this line of business will fluctuate between periods.

For the three-month period ended December 31, 2025, the US segment's reportable segment income before tax increased by 6 percent to \$19.4 million from \$18.3 million in the same 2024-period. In the 2025-quarter, the increase in direct cost that largely resulted from higher depreciation and amortization on drilling equipment, was offset by the increase in other income which was mainly from net gains on disposition of drilling and other equipment. In the 2025-year, the US segment's reportable

⁽³⁾ Supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

segment income before tax declined by 7 percent to \$73.8 million from \$79.2 million in 2024. Lower profitability in the twelve-month period of 2025 primarily resulted from higher depreciation expenses, lower revenue from the sale of motor equipment and parts, and generally higher equipment repair expenses which primarily resulted from inflation, tariffs implemented late in the first quarter of 2025, and increased servicing costs from PHX Energy owning a more diverse RSS fleet.

Canada

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2025	2024	% Change	2025	2024	% Change
Directional drilling services	51,636	45,581	13	190,827	178,319	7
Motor rental	482	753	(36)	2,547	1,879	36
Total revenue	52,118	46,334	12	193,374	180,198	7
Direct costs	45,030	39,848	13	163,562	150,291	9
Gross profit	7,088	6,486	9	29,812	29,907	-
Expenses:						
Selling, general and administrative expenses	2,542	4,248	(40)	13,593	15,548	(13)
Research and development expenses	-	-	-	-	-	-
Finance expense	-	-	-	-	-	-
Finance expense lease liability	280	293	(4)	1,139	1,193	(5)
Other income	(1,982)	(2,527)	(22)	(6,668)	(7,292)	(9)
Reportable segment profit before income taxes	6,248	4,472	40	21,748	20,458	6

For the three-month period ended December 31, 2025, PHX Energy's Canadian operations generated revenue of \$52.1 million, a 12 percent increase compared to \$46.3 million in the 2024-period. In the 2025-year, the Canadian segment's revenue of \$193.4 million is its highest annual revenue on record and a 7 percent increase compared to the \$180.2 million generated in 2024. In both 2025-periods, revenue growth was largely driven by increased RSS activity.

In the 2025 three-month period, PHX Energy's Canadian segment's operating days declined by 2 percent to 3,302 days from 3,369 days in the same 2024-quarter and its RSS operating days accounted for 12 percent of its activity in the 2025-period, an increase compared to 5 percent in the corresponding 2024-period. In comparison, industry horizontal and directional drilling activity, as measured by drilling days, decreased by 10 percent to 14,881 in the fourth quarter of 2025 from 16,498 in the 2024-quarter. For the year ended December 31, 2025, there were 58,297 horizontal and directional drilling days realized in the Canadian industry, compared to the 62,759 days realized in 2024, a 7 percent decrease. In comparison, the Canadian segment's activity decreased by only 3 percent from 13,210 operating days in 2024 to 12,842 days in 2025. Additionally, the

Canadian division's RSS operating days in the 2025-year increased to 8 percent of the segment's activity from 4 percent in 2024. During the 2025-year, the Canadian division was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Ellerslie, Charlie Lake, Cummings, Sparky, and Scallion basins.

The Canadian division's average revenue per day⁽³⁾ for directional drilling services increased by 16 percent to \$15,640 in the 2025-quarter, as compared to \$13,538 in the corresponding 2024-quarter and increased by 10 percent to \$14,860 in the 2025-year from \$13,500 in 2024. The increases were primarily driven by the expanded use of RSS technologies.

PHX Energy's Canadian reportable segment profits increased by 40 percent to \$6.2 million in the 2025-quarter (2024 - \$4.5 million) and 6 percent to \$21.7 million in the 2025-year (2024 - \$20.5 million). The improved profitability in both 2025-periods was mainly due to higher RSS activity and lower personnel-related costs.

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Cash flows from operating activities	31,681	17,676	73,156	96,898
Funds from operations ⁽²⁾	29,309	24,305	104,603	99,695

	Dec. 31, '25	Dec. 31, '24
Working capital ⁽²⁾	110,910	84,545
Net debt (Net cash) ⁽²⁾	6,382	2,664

Cash flow from operating activities increased to \$31.7 million in the fourth quarter of 2025 (2024-quarter - \$17.7 million) and decreased to \$73.2 million in the 2025 twelve-month period (2024 - \$96.9 million). The increase in the 2025 three-month period was primarily due to higher earnings, lower income taxes paid, and the change in non-cash working capital (source of cash). The decrease in the 2025 twelve-month period was primarily due to higher income taxes paid and the change in non-cash working capital (use of cash).

For the three-month period and year ended December 31, 2025, funds from operations⁽²⁾ were \$29.3 million and \$104.6 million, respectively, as compared to \$24.3 million and \$99.7 million in the comparable 2024-periods. The increase in funds from

⁽²⁾ Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

⁽³⁾ Supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

operations in both 2025-periods primarily resulted from higher levels of earnings excluding depreciation and amortization expenses.

As at December 31, 2025, the Corporation had working capital⁽²⁾ of \$110.9 million, an increase of \$26.4 million from the \$84.5 million reported at December 31, 2024. The increase in working capital at December 31, 2025 was primarily due to higher levels of cash and trade and other receivables, and lower levels of trade and other payables at the end of the 2025-year. Net debt⁽²⁾ as at December 31, 2025 was \$6.4 million as compared to \$2.7 million at the end of 2024. The increase in net debt was due to higher levels of drawings that were utilized to fund acquisitions of drilling and other equipment in 2025.

Cash Flow, Dividends, and ROCS

In December 2020, PHX Energy reinstated its quarterly dividend program. In November 2022, PHX Energy's Board approved a refinement of its shareholder return strategy in the form of ROCS which targets up to 70 percent of annual excess cash flow⁽²⁾ to potentially be used for shareholder returns, with optionality including the base dividend program, potential share buy backs, and potential special dividends. The Board will continually review the dividend program and its ROCS and take into consideration, without limitation, the Corporation's financial performance, forecasted activity levels and the industry outlook, among other factors. The actual amount of future quarterly dividends, if any, remains subject to the approval of and declaration by the Board. The Board reviews the Corporation's dividend policy in conjunction with their review of quarterly financial and operating results. The Corporation's ability to maintain the current level of dividends to its shareholders is dependent upon the realization of sufficient cash flow from operating activities, among other considerations, and if the Corporation does not meet its budgeted cash flow from operating activities, dividends to shareholders may be reduced or suspended entirely.

For the three-month period and year ended December 31, 2025, dividend payments of \$9 million and \$36.3 million, respectively, were financed from the Corporation's cash flows from operating activities (2024 - \$9.2 million and \$37.6 million, respectively). On December 15, 2025, the Corporation declared a dividend of \$0.20 per common share payable to shareholders of record on December 31, 2025. An aggregate of \$9.1 million was paid on January 15, 2026. On February 24, 2026, the Corporation declared a special cash dividend of \$0.20 per common share payable on April 1, 2026 to shareholders of record at the close of business on March 16, 2026.

During the third quarter of 2025, the TSX approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 4,035,757 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 5, 2025. The NCIB commenced on August 18, 2025 and will terminate on August 17, 2026. Purchases of common shares may be made on the open market through the facilities of the TSX and through alternative trading systems.

⁽²⁾ Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the previous NCIB, 379,000 common shares were purchased by the Corporation and cancelled for \$3.3 million in the year ended December 31, 2025. (2024 – 2,141,232 common shares were purchased and cancelled for \$20.6 million). No common shares have been purchased under the current NCIB to date.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2025 was \$34.2 million as compared to \$49.2 million in 2024. During 2025, the Corporation spent \$49 million (2024 - \$73.4 million) to grow the Corporation's fleet of drilling equipment, \$16.6 million (2024 - \$5.3 million) was used to maintain capacity in the Corporation's fleet of drilling and other equipment, and \$6.7 million (2024 - \$4.6 million) was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of \$42.3 million (2024 - \$36.7 million), the Corporation's net capital expenditures⁽²⁾ for 2025 were \$30 million (2024 - \$46.5 million).

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Growth capital expenditures	6,362	13,580	48,959	73,378
Maintenance capital expenditures from asset retirements	1,032	-	16,634	5,289
Maintenance capital expenditures to replace downhole equipment losses	2,087	2,134	6,700	4,610
Total capital expenditures	9,481	15,714	72,293	83,277
Deduct:				
Proceeds on disposition of drilling equipment	(11,354)	(10,057)	(42,286)	(36,741)
Net capital expenditures ⁽²⁾	(1,873)	5,657	30,007	46,536

The 2025-year capital expenditures comprised of:

- \$27.4 million in RSS;
- \$23 million in MWD systems and spare components;
- \$17.6 million in downhole performance drilling motors; and
- \$4.3 million in machinery and equipment and other assets.

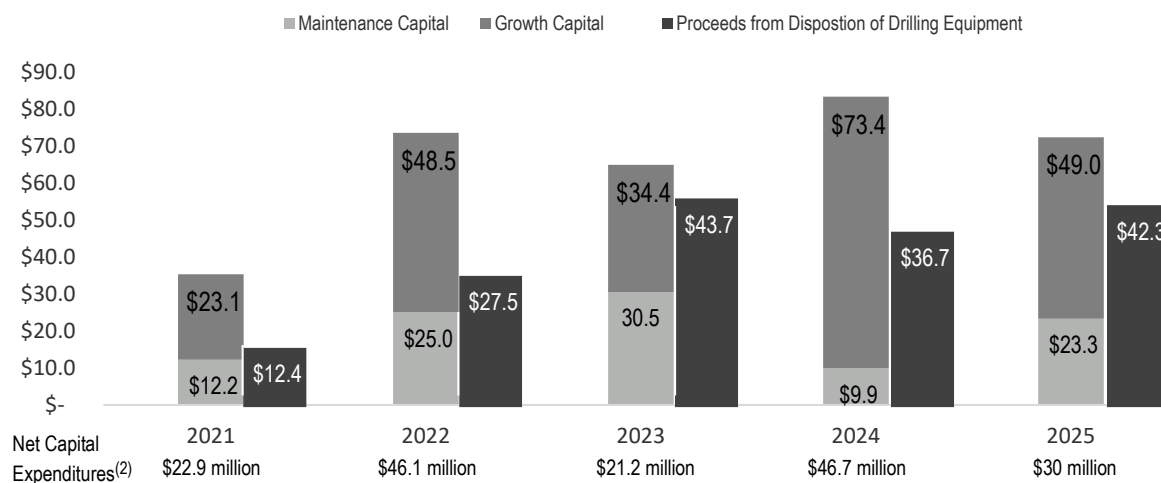
⁽²⁾ Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

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

The change in non-cash working capital balances of \$0.5 million (source of cash) relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to \$0.4 million use of cash in 2024.

Capital Expenditures

In 2025, the Corporation continued to grow its fleet of high-performance technologies, including its Atlas motors, Velocity systems, and RSS.



⁽²⁾ Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

Financing Activities

For the year ended December 31, 2025, net cash used in financing activities was \$23.4 million as compared to \$51.1 million in 2024. In the 2025-year:

- dividends of \$36.3 million were paid to shareholders;
- 379,000 common shares were repurchased and cancelled under the NCIB for \$3.3 million;
- payments of \$3.7 million were made towards lease liabilities;
- \$19 million net drawings were made from the Corporation's syndicated credit facility; and
- 240,000 common shares were issued from treasury for proceeds of \$0.9 million upon the exercise of share options.

Capital Resources

As of December 31, 2025, the Corporation had CAD \$35.5 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of \$29.1 million. As at December 31, 2025, the Corporation had approximately CAD \$74 million and USD \$25 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2028.

As at December 31, 2025, the Corporation was in compliance with all its financial covenants under its credit facilities as follows:

Ratio	Covenant	As at December 31, 2025
Debt to covenant EBITDA ⁽ⁱ⁾	<3.0x	0.28
Interest coverage ratio ⁽ⁱ⁾	>3.0x	43.54

⁽ⁱ⁾ Definitions for these terms are included in the credit agreement filed on SEDAR+ under the heading "Material Contracts – Credit Agreements".

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

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, proceeds on disposition of drilling equipment, debt and equity. The Corporation currently anticipates spending approximately \$60 million in capital expenditures during 2026, which was recently approved by the Board. Of the total expenditures, approximately 40 percent is targeted to be spent on growth and the rest is expected to be allocated to maintain capacity in the existing fleet of drilling and other equipment and replace equipment lost downhole during drilling operations. The amount expected to be allocated towards replacing equipment lost downhole could increase, should more downhole equipment losses occur throughout the year.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary. However, if a sustained period of market uncertainty, threat of trade wars, and financial market volatility persists in 2026, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at potentially expanding this planned capital expenditure amount.

As at December 31, 2025, the Corporation has commitments to purchase drilling and other equipment for \$41.4 million. Delivery is expected to occur within the first half of 2026.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at December 31, 2025 and 2024.

Proposed Transactions

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

Critical Accounting Estimates and Judgments

The 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Assumptions and estimation uncertainties that have a significant risk of material adjustment in the context of these financial statements include the following:

- key assumptions used in the valuation of drilling and other equipment;
- estimated useful lives of drilling and other equipment and intangible assets;
- recognition of deferred tax assets based on estimates of the availability of future taxable profit against which carry-forward tax losses can be used;
- assumptions used in the valuation of investments;
- estimates and assumptions used in the valuation of inventory;
- estimate used in the valuation of accounts receivable;
- valuation of equity-settled and cash-settled share-based payments; and,
- key assumptions used in the estimate of leases including valuation of right of use assets and lease liabilities.

Climate change policy and ESG culture policies are evolving at regional, national and international levels. Political and economic events may significantly affect the scope and timing of ESG policies and climate change measures. The Canadian Securities Administrators ("CSA") have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The Canadian Sustainability Standards Board ("CSSB") published Canadian Sustainability Disclosure Standard ("CSDS"), CSDS 1 & CSDS 2 in 2024, adoption is voluntary until mandated by provincial regulators. The CSA announced in April 2025 it has paused work on developing a revised climate-related disclosure policy, which will provide the regulatory framework for issuers.

Significant judgement is required to assess when impairment indicators exist, and impairment testing is required. The assessment of impairment indicators is based on management's judgment of whether there are internal and external factors that would indicate that a cash generating unit ("CGU") and specifically the non-financial assets within the CGU, are impaired. These factors include revenue and earnings before interest, taxes, depreciation and amortization forecasts, expected industry activity levels, commodity price developments and market capitalization. The determination of a CGU is also based on

management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets.

Changes in Accounting Policies

PHX Energy's material accounting policies are described in Note 3 of the Corporation's annual consolidated financial statements for the years ended December 31, 2025 and 2024.

Effective September 1, 2025, the Corporation updated the estimated useful life of certain primary components of its motors as a result of the periodic review of its useful lives. Management determined that the useful life of this equipment should be updated from 8 years to 5 years. During the year ended December 31, 2025, an additional \$6 million in depreciation expense was recorded to reflect this change in estimate.

Financial Instruments

Credit Risk

The Corporation held cash of \$29.1 million at December 31, 2025 (2024 – \$14.2 million). The cash is held with financial institution counterparts, which are rated A+ or higher, based on S&P Global ratings.

The Corporation is exposed to normal credit risks of its customers that exist within the oil and natural gas exploration and development industry. The Corporation's credit risk associated with these customers can be directly impacted by a decline in economic conditions, which would impair the customers' ability to satisfy their obligations to the Corporation. During the year ended December 31, 2025, one customer comprised 24 percent of the total revenue (2024 - 15 percent of revenue). The increase was due to the merger of two large customers within the US operating segment.

As at December 31, 2025, the aging of trade and other receivables that were not impaired was as follows:

<i>(Stated in thousands of dollars)</i>		2025
Neither past due nor impaired	\$	102,343
Past due 1-30 days		23,546
Past due 31-60 days		10,206
Past due 61-90 days		1,682
Past due over 90 days		863
	\$	138,640

The Corporation's standard customer payment terms are 30 days after job completion or invoice issuance date, after which, the balance becomes past due. The Corporation will assess for impairment once the receivable becomes past due. All accounts receivable balances that are past due for more than 90 days and were not impaired represented less than one percent or approximately \$0.9 million of total receivables on the statement of financial position at December 31, 2025. Management believes that the unimpaired amounts that are past due are still collectible in full, based on historic payment behavior and extensive analysis of customer credit risk. Management has provided an allowance of \$0.3 million for all amounts it considers uncollectable at December 31, 2025 (2024 - \$0.1 million).

The Corporation has a credit management program to assist in managing this risk, which consists of conducting financial and other assessments to establish and monitor a customer's creditworthiness. The Corporation monitors and manages its credit risk on an ongoing basis.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation has financial liabilities, thus, is exposed to liquidity risk. The Corporation's approach to managing liquidity risk is to ensure that it always has sufficient cash and credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of twelve months to identify financing requirements. These requirements are then addressed through a combination of demand credit facilities and access to capital markets. The Corporation believes that future cash flows generated by the operations and access to additional liquidity through capital and banking markets will be adequate to meet its financial obligations.

The following table reflects the Corporation's anticipated payment of contractual obligations as at December 31, 2025:

<i>(Stated in thousands of dollars)</i>	2026	2027	2028	2029	2030 and after
Drilling and other equipment purchase commitments	41,382	-	-	-	-
Trade and other payables	110,896	-	-	-	-
Other non-current liabilities	-	1,224	340	-	-
Dividends payable	9,074	-	-	-	-
Bank loan interest and principal ⁽ⁱ⁾	1,714	1,633	37,044	-	-
Lease payments ⁽ⁱⁱ⁾	6,562	6,083	5,117	2,209	700
	169,628	8,940	42,501	2,209	700

⁽ⁱ⁾ Bank loan interest has been estimated using interest rates in effect at December 31, 2025.

⁽ⁱⁱ⁾ Lease payment amounts are gross and undiscounted contractual cash flows and include low value and short-term leases.

Fair Values of Financial Instruments

The Corporation has designated its trade and other payables, dividends payable, and loans and borrowings as non-derivative financial liabilities carried at amortized cost. Cash and trade and other receivables are designated as non-derivative financial assets measured at amortized cost. The Corporation's carrying values of these items, excluding loans and borrowings, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings bear 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 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 3 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.

Interest Rate Risk

Interest rate risk is created by fluctuations in the fair values of financial instruments due to changes in the market interest rates. The Corporation has access to variable interest long-term debt which exposes it to fluctuations in cash interest payment amounts.

A one percent change in interest rates would have increased or decreased the Corporation's profit by \$0.3 million for the year ended December 31, 2025.

Foreign Exchange Risk

Foreign exchange risk is created by fluctuations in the fair values of financial instruments due to changes in foreign exchange rates. Due to operations of the Corporation's subsidiaries in the US, the Corporation has an exposure to foreign currency exchange rates. The carrying values of Canadian dollar and US dollar denominated monetary assets and liabilities and earnings are subject to foreign exchange risk. For the year ended December 31, 2025, foreign currency translation losses of \$9.6 million (2024 – \$14.5 million gain) that resulted from fluctuations in the CAD-USD exchange rates was recognized in other comprehensive income. For the year ended December 31, 2025, foreign exchange losses of \$0.2 million (2024 - \$1.1 million loss) were recognized as part of earnings. The Corporation reviews options with respect to managing its foreign exchange risk periodically.

The following chart represents the Corporation's exposure to foreign currency risk:

(Stated in thousands of dollars)

As at December 31, 2025	CAD	USD
Cash and cash equivalents	-	1,408
Trade and other payables	-	(2,237)
Intercompany receivables	3,981	-
Statement of financial position exposure	3,981	(829)

As at December 31, 2024	CAD	USD
Cash and cash equivalents	-	968
Trade and other payables	-	(3,073)
Intercompany payables	(2,800)	-
Statement of financial position exposure	(2,800)	(2,105)

The following significant exchange rates compared to the Canadian dollar applied during the year ended December 31:

		Average Rate		December 31, Close Rate
	2025	2024	2025	2024
USD	1.3979	1.3700	1.3724	1.4384

A strengthening of the Canadian dollar and US dollar against all other currencies as at December 31 would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant.

(Stated in thousands of dollars)

<i>Gain (Loss)</i>	2025	2024
CAD (10% strengthening)	\$ 290	\$ (195)
USD (10% strengthening)	(114)	(303)

Business Risk Factors

The Corporation's operations are subject to certain factors that are beyond its control. A significant portion of the Corporation's operating costs are variable in nature and, as a result, the impact of a significant decline in demand for the Corporation's goods and services on its financial results is somewhat lessened. Management has identified herein certain key risks and uncertainties associated with PHX Energy's business that could impact financial results. More detailed disclosure of these risk factors and additional risk factors that could affect the Corporation and its results are included under the heading "*Risk Factors*" in the Corporation's most recently filed AIF, which is available under the Corporation's profile at www.sedarplus.ca. Material risks include, but are not limited to:

Political Uncertainty and Geopolitical Risk

The Corporation's results may be adversely impacted by political, legal, or regulatory developments in Canada, the US and elsewhere that affect local operations and local and international markets. Changes in government, government policy or regulations, sanctions, changes in law or interpretation of settled law, third-party opposition to industrial activity generally or projects specifically, and the duration of regulatory reviews could impact the Corporation's existing or future operations and plans. Additionally, changes in environmental regulations, assessment processes or other laws, and increasing and expanding stakeholder consultation (including Indigenous stakeholders), may increase the cost of compliance or reduce or delay available business opportunities of both the Corporation and its customers and adversely impact the Corporation's results.

In particular, there is uncertainty regarding US tariffs and support for existing treaty and trade relationships, including with Canada. (See "Global Trade & Supply Chain" section for more details). Implementation of new legislative or regulatory policies by the US government, including without limitation, tariffs, could impose additional costs on the Corporation, including in particular as a result of its cross-border provision of goods and services, or decrease industry activity which would impact demand for the Corporation's services or otherwise negatively impact the Corporation and its operations, which could have a material adverse impact on the Canadian economy, the Canadian oil and natural gas industry and the Corporation.

Other government and political factors that could adversely affect the Corporation's financial results include increases in taxes and changes in trade policies and agreements. Further, the adoption of regulations mandating efficiency standards, or the use of alternative fuels or uncompetitive fuel components could affect the Corporation's operations. Many governments are providing tax advantages and other subsidies to support alternative energy sources or are mandating the use of specific fuels or technologies. Governments and others are also promoting research into new technologies to reduce the cost and increase the scalability of alternative energy sources, and the success of these initiatives may decrease demand for the Corporation's services and technologies.

A change in federal, provincial, state or municipal governments in Canada or the US may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry including the balance between

economic development and environmental policy. In Canada particularly, federal and certain provincial governments have been active in recent years in their support for or opposition to major infrastructure projects in Canada leading to investment uncertainty, increased awareness of, and challenges to interprovincial and international infrastructure projects. Disputes and uncertainty over jurisdiction between the federal and the provincial governments and over the scope of environmental related legislation have created significant barriers to major infrastructure projects in Canada, which has had an adverse impact on the Corporation's customers' business plans and consequently could impact industry activity levels.

The oil and natural gas industry has become an increasingly politically polarizing topic domestically in North America and internationally, resulting in a rise in civil disobedience surrounding oil and natural gas development - particularly with respect to infrastructure projects. Protests, blockades and demonstrations have the potential to delay or disrupt the Corporation's activities and those of its customers.

Global Trade & Supply Chain

The current US-Canada tariff environment remains highly dynamic and uncertain. Legislative or regulatory changes by the US administration and/or Canadian government could impact the Corporation and its supply chain, impact the Corporation's operations as well as that of its customers, affect industry activity or otherwise negatively impact the Corporation, which may have a material adverse effect on the Corporation's business, revenues, earnings, financial condition and operations. Without limitation, this uncertainty may adversely impact: (i) the ability of companies to transact business with companies such as the Corporation; (ii) the Corporation's vertical integration strategy including, without limitation, the historical cost effective movement of equipment and services across the Canadian/US border; (iii) the Corporation's overall profitability; (iv) the Corporation's costs to manufacture and maintain equipment; (v) regulation affecting the North American oil and gas industry; (vi) global stock markets, including the TSX; and (vii) general global economic conditions. Certain of these factors are outside of the Corporation's control but may nonetheless lead the Corporation to adjust its strategy in order to mitigate the impacts on it and continue to compete effectively in international markets.

In March 2025, the United States imposed a series of tariffs on goods imported from Canada and other countries, triggering a de facto global trade war, and prompting Canada and several trading partners to implement retaliatory measures. Since then, tariff policies have continued to evolve, creating ongoing uncertainty regarding US support for existing trade agreements, including the United States-Mexico-Canada Agreement ("USMCA").

Over the past year, US tariffs on certain Canadian products along with Canada's reciprocal measures, have added complexity to cross-border trade. The US-Canada tariff environment remains volatile, with duties affecting products that do not qualify for USMCA exemptions. On February 20, 2026, the US Supreme Court ("SCOTUS") held that the Trump administration lacked legal authority to impose certain tariffs under the *International Emergency Economic Powers Act* and US Customs and Border Protection announced that it would cease collecting the affected tariffs. In response to the SCOTUS decision, the Trump administration has indicated that it intends to impose alternative tariffs or adopt other trade measures on its trading partners,

including Canada. SCOTUS' decision, Trump's administration's response and the ongoing USMCA review add further uncertainty to cross-border trade. Changes to existing tariffs or new trade restrictions could materially impact the Canadian and US economy, the Canadian and US oil and natural gas industry, the Corporation's operations and supply chain, as well as that of its customers. Additionally, further US tariffs on other countries could exacerbate global trade tensions, increase costs, reduce US demand for the Corporation's products, and negatively affect its operations.

The full extent of these measures and the impact of these policies is unknown especially in light of the fact that the timing, implementation, quantum and duration of new tariffs is uncertain. To the extent they are implemented and maintained, any new substantial tariffs in place for a prolonged period would be expected to have a material adverse impact on the Corporation's business and results, given its significant US presence and reliance on the cross-border movement of goods and equipment.

Dependence on Cross-Border Movement of Goods and Services

The ability of the Corporation to maintain its cost structure and effectively provide services and equipment to its customers is dependent upon its ability to move goods and services between its US and Canadian facilities and operations. There can be no assurance that the movement of these goods and services in a cost effective manner will not be impeded or interrupted by new governmental policies and regulations, including tariffs and/or retaliatory measures, global trade disruptions, infrastructure disruptions, or civil disobedience. If such movement of goods and services is impeded, interrupted or no longer feasible, the Corporation's ability to compete and its results of operations may be negatively impacted.

Customer Concentration and Industry Consolidation Risk

Generally, the Corporation maintains a broad customer base across Canada and the US. However in 2025, following the merger of two significant US customers, a single customer accounted for approximately 24 percent of PHX Energy's revenue for 2025 fiscal year. PHX Energy's work is awarded on a per job basis for particular rigs, including with respect to this major customer. Any number of factors, including potential service quality issues, could result in a reduction of jobs on a given rig. Moreover, there is no guarantee that all awarded work would not be withdrawn entirely. While PHX Energy believes that its relationship with this major customer and all existing customers is strong, the loss of any one customer, particularly this major customer, or a significant reduction in business done with PHX Energy by one or more of these customers, if not offset by sales to new or existing customers, could have a material adverse effect on PHX Energy's business, results of operations and prospects. Additional risks that could adversely impact the Corporation's revenue associated with the current customer concentration include the customers' ability to negotiate concessions due to its purchasing leverage and credit risk is also intensified with major customers.

Mergers and acquisitions in the oil and natural gas exploration and production sector have become more prevalent as of late, resulting in larger and more concentrated customers for service companies such as PHX Energy. As such, the Corporation may also be adversely affected if its customers undergo a merger, acquisition, consolidation, or other change-of-control transactions. In such circumstances, the acquiring or controlling entity may have pre-existing relationships with alternative

service providers, different procurement strategies, or strategic priorities that do not align with continued use of PHX Energy's products or services. There can be no assurance that PHX Energy would be retained as a service provider in the event of such a transaction, even if the Corporation has historically maintained a strong relationship and delivered satisfactory performance. Any decision by a successor entity to terminate, reduce, or materially alter its relationship with PHX Energy could result in a significant decline in revenue and have a material adverse effect on our business, financial condition, and results of operations.

Although PHX Energy seeks to continuously diversify our customer base, these measures may not fully mitigate the risks associated with customer concentration or potential consolidation within the oil and natural gas sector.

Capital Requirements

If the Corporation's revenues decline because of continued and sustained weakness and volatility in industry activity levels, it may be required to reduce its planned capital expenditures. In addition, continued sector, global and political volatility and resulting uncertain levels of industry activity, exposes the Corporation to additional capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available, or sufficient, to meet these capital expenditure requirements or for other corporate purposes, or if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Additionally, the failure to obtain adequate financing on a timely basis could cause the Corporation to miss certain strategic opportunities and reduce or terminate certain of its operations. The volatile conditions in the oil and natural gas industry have negatively impacted the ability of, and the cost to, companies involved in the oil and natural gas industry to access additional financing. The inability of the Corporation to access sufficient and acceptable capital for its operations in a timely manner could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Demand for Services – Globally

The demand, pricing and terms for PHX Energy's contract horizontal and directional drilling technologies and services depends largely upon the level of industry activity for natural gas and oil exploration and development in those jurisdictions in which the Corporation operates. Industry conditions are influenced by numerous factors over which the Corporation has no control, including: oil and natural gas prices; markets and storage levels; expectations about future oil and natural gas prices and production; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery of new oil and natural gas reserves; availability of pipeline and transportation capacity availability of liquefied natural gas; worldwide weather conditions; significant regional or global scale health epidemics; macro-economic and geopolitical factors, including military conflict and sovereign debt crises; regulatory and other economic conditions, including tariffs; alternative fuel requirements; increasing consumer demand for alternatives to oil and natural gas; technological advances in fuel economy and energy generation devices; and the ability of oil and natural gas companies to raise equity capital or debt financing.

The level of activity in the global oil and natural gas exploration and production industry remains volatile. Any prolonged volatility and substantial reduction in oil and natural gas prices would likely affect oil and natural gas production levels and therefore continue to affect the currently reduced demand for services to oil and natural gas customers. Sustained low oil or natural gas prices or Canadian, US and international industry activity would continue to have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. The business and activities of the Corporation are directly affected by fluctuations in the levels of exploration, development and production activity carried on by its customers.

Foreign Operations

The Corporation regularly assess its foreign operations risk. Any change in government policies could have a significant impact on business, especially in the US as it represents a large portion of the Corporation's market and operations. Risks of foreign operations include, but are not necessarily limited to international trade wars, foreign currency exchange rate fluctuations, changes of laws affecting foreign ownership, government participation, taxation, royalties, duties, tariffs, inflation, repatriation of earnings, social unrest or civil war, corruption, acts of terrorism, extortion or armed conflict and uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation. There are no assurances that the economic and political conditions in the countries in which the Corporation operates will continue as they are at the present time. While the impact of these factors cannot be accurately predicted, if any of the risks materialize, they could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

US Operations

The majority of the Corporation's operations are conducted in the US, as over the last ten years it has expanded its presence in and exposure to this market by: (a) increasing sales and marketing initiatives; (b) retaining additional personnel; (c) developing and deploying new technologies that provide competitive advantages in the US market; and (d) increasing the amount of equipment located in the US. As a result, the Corporation is increasingly subject to the prevailing market conditions of the oil and natural gas services industries in the US. The Corporation's reliance on the market for these industries means that it is subject to downturns in the US economy, adverse weather patterns in the US (such as hurricanes and tropical storms), US regulatory changes, protectionist actions by US legislators, including tariffs, and other political developments, all of which could have an adverse impact on the Corporation's operations and financial results.

While growth of US operations enhances the Corporation's ability to access opportunities in the US, it also increases its exposure to risks such as those listed above, civil liability exposure, and evolving political dynamics in the US, including increasing protectionist sentiment and measures such as tariffs, the renegotiation of trade agreements, and efforts to reduce regulation in many US industries. As a result, the competitive position of the Corporation may become increasingly uncertain and challenging in relation to the US.

Variations in Foreign Exchange Rates

World oil and natural gas prices are quoted in US dollars and the price received by Canadian producers is therefore affected by the Canadian/US dollar exchange rate which fluctuates over time. While recently the Canadian dollar has decreased in value against the US dollar, any material increases in the value of the Canadian dollar may negatively impact the revenues of exploration and production companies, and consequently, the revenues of energy services companies such as the Corporation. Additionally, a majority of the Corporation's operations are in the US. Any material increases in the value of the Canadian dollar could have a material adverse effect on the Corporation's business, financial condition, results of operations or cash flows. An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, resulting in a reduced amount of capital available to fund its capital expenditure program.

Adverse Economic Conditions

The demand for energy, including oil and natural gas, is generally linked to broad-based economic activities. If there was a slowdown in economic growth, an economic downturn or recession, or other adverse economic or political development anywhere globally, there could be a significant adverse effect on global financial markets and commodity prices. Events such as natural disasters, war, riots, or civil unrest, terrorist attacks, public health crises (such as epidemics, pandemics, or new infectious diseases), trade and infrastructure disruptions, civil disobedience, national emergencies, and technological attacks, could adversely affect the global economy. These events can create volatility and disrupt supply chains, operations, workforce mobility, and financial markets. Such disruptions may lead to a significant decline in economic activity in Canada, the US and globally, reduce demand for oil and natural gas, and affect interest rates, credit ratings, inflation, and overall business conditions. These and other factors disclosed elsewhere in the continuous disclosure of the Corporation that affect the supply and demand for oil and natural gas, and the Corporation's business and industry, could ultimately have an adverse impact on the Corporation's financial condition, financial performance, and cash flows.

Volatility of Commodity Prices and Industry Activity

Activity levels in the oil and natural gas industry are highly dependent on commodity prices. Commodity prices may fluctuate for a variety of reasons that are beyond the Corporation's and its customers' control, including market uncertainties over the supply and demand of these commodities due to the current state of the world economies, actions of the Organization of Petroleum Exporting Countries ("OPEC+"), political uncertainties, sanctions or tariffs imposed on certain oil producing nations by other countries, the Russian Ukrainian war, conflicts in the Middle East, geopolitical developments in Venezuela, or other adverse economic or political development in the United States, Europe, South America or Asia. Additionally, the occurrence or threat of terrorist attacks in the United States or other countries could adversely affect the global economy. Commodity prices have historically been, and continue to be, volatile. The Corporation expects this volatility to continue. The Corporation makes activity assumptions based on commodity price assumptions that are used for planning purposes. Accordingly, if commodity prices and consequently industry activity levels are below the expectations, the Corporation's capital plans and

financial results are likely to be adversely affected. Significant or extended price declines could have a material adverse effect upon the financial condition, results of operations and cash flows of the Corporation.

Global Conflicts

The Corporation's business may be adversely affected by geopolitical conflicts abroad including those that affect global oil markets. In particular the recent US and Venezuela conflict has heightened potential to impact the Corporation's operations. In addition the ongoing Middle East and Russia-Ukraine conflict could pose ongoing risks to regional stability, global energy and industrial supply chains, and international markets, which could negatively impact the world economy, the Canadian and US oil and gas industry, and the Corporation.

US-Venezuela Conflict

On January 3, 2026, United States military forces conducted an operation in Caracas, Venezuela, resulting in the capture of President Nicolás Maduro and his spouse, Cilia Flores. Subsequent statements by US leadership indicated an intention to administer Venezuela temporarily and facilitate significant investment by American oil companies in Venezuela's petroleum sector. These actions have drawn widespread international attention, and the extent of resulting political and economic repercussions remains uncertain. Given that the United States is the primary destination for Canadian crude oil exports, increased US access to Venezuela's substantial reserves could reduce US demand for Canadian crude and negatively affect pricing and market competitiveness.

Availability, Quality and Cost of Equipment and Development of New Technology

The industry in which the Corporation operates is categorized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. PHX Energy currently owns its horizontal and directional drilling equipment which it develops and manufactures internally or in some cases purchases from various suppliers in the oil and natural gas drilling service industry, including certain competitors. Additionally, the Corporation purchases equipment and materials for the manufacturing of its own technology from various suppliers in the oil and natural gas drilling service industry. The ability of the Corporation to compete and expand its business is dependent upon it having access at a reasonable cost to certain industry-leading equipment, specialized components and drilling equipment and supplies, which are at least technically equivalent to those offered by competitors as well as upon its ability to develop or acquire new competitive technology. Failure by the Corporation to do so could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. There can be no assurance that the sources for equipment and materials used by the Corporation will be maintained or available at acceptable cost. If such equipment or materials are not available from current sources, and are not available from any other source, the Corporation's ability to compete may be impaired. If the Corporation is unable to continue to offer advanced and industry leading technologies to its customers, or is unsuccessful in implementing certain technologies, its business and results of operations could also be adversely affected. Additionally, there can be no assurance

that the Corporation will be able to respond to the competitive pressures of those companies with greater financial and technical resources and implement new technologies on a timely basis, at an acceptable cost, or at all.

In the future the Corporation may seek patents or other similar protections in respect of particular tools, equipment or technology, however, the Corporation may not be successful in such efforts. Competitors may also develop similar tools, equipment or technology to those of the Corporation thereby adversely affecting the Corporation's competitive advantage in one or more of their businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by the Corporation, may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other adverse results that could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Workforce Availability and Key Personnel

The success of the Corporation is dependent upon the recruitment and retention of a skilled workforce and key personnel. Losing the services of key personnel, or a substantial portion of the Corporation's workforce as a whole could result in its failure to successfully implement business plans and have a material adverse effect on the business and operations of the Corporation. The Corporation does not have any key personnel insurance in place. The contributions of the existing management team and other key personnel are likely to be of central importance to the immediate and near-term operations of the Corporation. In addition, certain of PHX Energy's current employees have significant institutional knowledge that must be transferred to other employees prior to their departure from the Corporation. If PHX Energy is unable to: (i) retain current employees; (ii) successfully complete effective knowledge transfers; and/or (iii) recruit new employees with the requisite knowledge and experience, the Corporation could be negatively impacted. In addition, the Corporation could experience increased costs to retain and recruit these professionals. Competition for qualified personnel in certain sectors of the oil and natural gas services industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. The unexpected loss of one or more of the Corporation's key personnel, or the inability to retain or recruit skilled personnel could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. Investors must rely upon the ability, expertise, judgement, discretion, integrity and good faith of the management of the Corporation.

Dependence on Suppliers

The ability of the Corporation to compete and expand its operations is dependent upon PHX Energy having access to certain equipment and specialized components at a reasonable cost and its ability to develop or acquire new competitive technology. The Corporation purchases equipment and materials from various suppliers in the oil and natural gas drilling service industry. There can be no assurance that these sources for equipment and materials will be maintained or uninterrupted. If such equipment and materials are not available from current sources and are not available from any other source, the Corporation's ability to compete may be impaired.

Competition

The oilfield services industry is highly competitive and PHX Energy's major competitors are principally large multinational companies, many of which are substantially larger than PHX Energy, with significantly greater resources available for marketing and research and development programs. In certain aspects of its business, PHX Energy also competes with a number of other small companies, which, like PHX Energy, have certain competitive advantages such as low overhead costs and specialized regional strengths. PHX Energy's ability to generate revenues and earnings depends on its ability to obtain contracts and to perform services within projected times and costs. There can be no assurance that competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Corporation or that new competitors will not enter the various markets in which the Corporation is active. As a result of competition, the Corporation may be unable to continue to provide its present level of services or to acquire additional business opportunities, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in reduced pricing pressure for services, reduced day rates and corresponding lower revenue to the Corporation. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an effect upon the Corporation's ability to generate revenue and earnings. Other factors that could affect competition include additional transition to alternative sources of energy, political and economic factors and other factors outside of PHX Energy's control.

Potential Replacement or Reduced Use of Products and Services

Certain of the Corporation's equipment or systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be preferable for environmental or other reasons. The Corporation will need to keep current with the changing market for oil and natural gas services and technological and regulatory changes. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis, or at a reasonable cost. If the Corporation fails to do so, this could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on the level of dividends, if any, which may be declared to Shareholders.

Oil and Natural Gas Industry Risk & Insurance

PHX Energy's operations are subject to the risks normally incidental to the exploration, development and operation of oil and natural gas properties and the drilling of oil and natural gas wells, including, without limitation, encountering unexpected formations or pressures, equipment defects, malfunction, failures, blow-outs, loss of well control, sour natural gas leaks, the release of contaminants into the environment, cratering, fires, explosions, or other acts of nature, any of which could result in

work stoppages, personal injuries, loss of life or damage to or destruction of equipment, facilities and property of PHX Energy and others, and the imposition of fines or penalties pursuant to environmental legislation. These risks and hazards could expose PHX Energy to substantial liability. PHX Energy maintains insurance coverage that it believes to be adequate and customary in the industry, however such insurance has limitations on liability and may not be sufficient to cover the full extent of all liabilities. The payment of any uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. While PHX Energy maintains such insurance, it may not be adequate to cover all the costs and risk of loss arising from PHX Energy's operations, all potential liabilities, potential quantum of liabilities due to cover limits, exclusions or uninsurable events. In addition, such insurance may not be available in the future at reasonable or commercially justifiable rates, as a result, PHX Energy may elect not to obtain insurance to address specific risks. Further, there can be no assurance that insurance will continue to be available to PHX Energy at all. In the event of any of the foregoing occurring, the Corporation's overall risk exposure could increase and PHX Energy could incur significant costs that could have a material adverse effect upon its financial condition, results of operations and cash flows.

The Corporation's insurance policies are generally renewed on an annual basis and, depending on factors such as market conditions, the premiums, policy limits and/or deductibles for certain insurance policies can vary substantially. In some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. Significantly increased premiums could lead the Corporation to decide to reduce or possibly eliminate, coverage.

Anti-Indemnity Contract Provisions

The Corporation regularly enters into agreements with its customers governing the provision of equipment and services, which agreements usually include certain indemnification provisions for losses resulting from operations. Such agreements may require each party to indemnify the other against certain claims regardless of the negligence or other fault of the indemnified party. However, many jurisdictions place limitations on contractual indemnity agreements, particularly agreements that indemnify a party against the consequences of its own negligence. Furthermore, certain states, including Texas, Louisiana, New Mexico and Wyoming, have enacted oilfield anti-indemnity statutes which expressly prohibit certain indemnity agreements contained in or related to oilfield services agreements. Such anti-indemnity statutes may restrict or void a party's indemnification of the Corporation, which could have a material adverse effect on the business, financial condition, and results of operations of the Corporation.

Inflation, Cost Management and Interest Rates

The Corporation's financial performance and cash flows may be adversely affected by inflationary pressures and fluctuations in interest rates. Inflation can lead to increased operating costs through higher prices for labour, equipment, materials, and services, as well as contribute to supply chain disruptions and regulatory changes. If the Corporation is unable to manage

costs it could impact future capital expenditure plans and have a material adverse effect on its financial performance and cash flows.

Although interest rates have begun to decline, higher interest rates over the last several years have impacted the Corporation's borrowing costs. The increased borrowing costs may impact the Corporation's business plans, which could have a material adverse effect on its financial performance and cash flows. Sustained periods of elevated interest rates can also slow economic growth, reduce energy demand, depress commodity prices, and limit industry activity. It is unknown how long inflation will continue to impact the economies of Canada and the US and how inflation and interest rate fluctuations will impact oil and natural gas demand and commodity prices.

Third Party Credit Risk

The Corporation may be exposed to third party credit risk through its contractual arrangements with its customers and other parties. As a result of challenging and often volatile oil and natural gas market conditions and other market factors the Corporation may face heightened counterparty credit risk as a substantial portion of the Corporation's dealings are with entities involved in the oil and natural gas industry. The Corporation's credit risk associated with its customers can be directly impacted by a sustained decline in commodity prices and associated economic conditions, which would impair customers' ability to satisfy their obligations to the Corporation and therefore could materially adversely effect the Corporation's business, financial condition, results of operations, receivables and prospects. While the Corporation has a credit management program to assist in managing risks related to collecting its receivables, collection of such receivables may be impacted by unfavourable industry conditions including fluctuations in commodity prices. To the extent that any of the Corporation's customers go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or a portion of any money owing from such customers. Any of these factors could have a material adverse effect on the Corporation's business, financial condition, results of operations, receivables and cash flow.

Cash Flow Risk

The Corporation will require sufficient cash flow in the future in order to service and repay its indebtedness. The Corporation's ability to generate sufficient cash flow to meet these obligations is, to a certain extent, subject to global economic, financial, competitive and other factors that may be beyond its control. If the Corporation is unable to attain future borrowings or generate cash flow from operations in an amount sufficient to service and repay its indebtedness, the Corporation will need to refinance or be in default under the agreements governing its indebtedness and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets. Such refinancing or alternative measures may not be available on favorable terms or at all. In particular, due to the ongoing conditions in the oil and natural gas and oilfield services industries and/or global economic volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The current conditions in the oil and natural gas and oilfield services industries have negatively impacted the

ability of such companies to access additional financing. The inability to service, repay and/or refinance its indebtedness could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Access to Additional Financing

The Corporation may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise financing to support ongoing operations or to Corporation capital expenditures or acquisitions could limit the Corporation's growth and could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. Additionally, the failure to obtain adequate financing on a timely basis could cause the Corporation to miss certain strategic opportunities and reduce certain of its operations. Where additional financing is raised by the issuance of Common Shares or securities convertible into Common Shares, control of the Corporation may change and Shareholders may suffer dilution to their investment.

As a result of global economic and political volatility, the Corporation may, from time-to-time, have restricted access to capital and increased borrowing costs. Failure to obtain suitable financing on a timely basis could cause the Corporation to miss certain acquisition opportunities and reduce or terminate its operations. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's assets may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Alternatively, any available financing may be highly dilutive to existing Shareholders. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in a delay in development of the Corporation's assets.

Availability of Current Credit Facilities

The amount available under the Corporation's credit facilities are subject to periodic review by the Corporation's lenders, with the next scheduled review to occur in mid-2028. There is no assurance that the amount available to the Corporation under its credit facilities may not be reduced and, if the amount available is reduced to below the amount outstanding thereunder, the excess amount will be required to be repaid. In such event, the Corporation will have to repay such amount from other sources, including cash flow, equity issuances or other financing alternatives, which may or may not be available or, if available, may not be available on acceptable terms. The Corporation's ability to access its credit facilities is also directly dependent, among other factors, on satisfaction of certain financial ratios and other restrictive covenants. A breach of these covenants, which may be affected by events beyond the Corporation's control, could constitute an event of default which, if not cured or waived, could result in the amounts outstanding under the credit facilities to become due and payable immediately. There is no certainty that the Corporation would be in a position to make such repayment. Even if the Corporation is able to obtain new financing

in order to make any required repayment under its credit facilities, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under its credit facilities, the lenders could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness.

Management of Growth

The Corporation may be subject to growth-related risks at certain periods of time including capacity constraints and pressure on its internal systems and controls. To continue to manage growth effectively, the Corporation will need to continue to implement and improve its operational and financial systems and train and manage, and potentially expand, its employee base. If the Corporation is unable to deal with such growth, it may have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

Dividends

The amount of future cash dividends paid by the Corporation or other forms of shareholder returns, if any, will be subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time-to-time, including, among other things, fluctuations in commodity prices, capital expenditure requirements, debt service requirements and debt levels, operating costs, the ROCS, foreign exchange rates, limits on distributions under the Corporation's credit facility, and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Corporation, the dividend policy and ROCS of the Corporation may change from time-to-time and, future cash dividends could be reduced or suspended entirely.

The market value of the Corporation's common shares may deteriorate if cash dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by the Corporation and potential legislative and regulatory changes. Dividends may be reduced during periods of lower funds from operations⁽²⁾, which result from lower commodity prices and reduced customer services demands and any decision by the Corporation to finance capital expenditures using funds from operations.

To the extent that external sources of capital become limited or unavailable, the ability of the Corporation to make its necessary capital investments in its business will be impaired. To the extent that the Corporation is required to use funds from operations to finance capital expenditures or invest in or further expand its asset base, the cash available for dividends may be reduced.

⁽²⁾ Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

Information Technology Systems, Cybersecurity and Social Media

The Corporation has become increasingly dependent upon the availability, capacity, reliability and security of its information technology infrastructure and its ability to expand and continually update this infrastructure to conduct daily operations. The Corporation depends on various information technology systems to process and record financial data, manage financial resources, administer contracts with customers and communicate with employees and third-party partners.

Further, the Corporation is subject to a variety of information technology and system risks as a part of its normal course operations including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities or the Corporation's competitive position.

Alongside broader cybersecurity exposures, the Corporation is also facing emerging risks specifically associated with the increased use of artificial intelligence ("AI"). The organization is evaluating and implementing AI initiatives across two main areas: user productivity and strategic projects. While these efforts may deliver operational and strategic benefits, they may also introduce additional risk considerations, including potential disruptions to business operations, heightened cybersecurity and data privacy threats, an evolving regulatory environment, ethical and reputational challenges, and greater reliance on third-party service providers. As legal and regulatory frameworks for AI remain uncertain, future compliance obligations could impose significant costs, or limit the Corporation's ability to integrate AI tools.

Phishing attacks (i.e., fraudulent attempts to obtain sensitive information such as passwords, financial details, or funds) have become increasingly sophisticated. A successful attack could result in loss of financial resources, theft of critical data, or compromise of the Corporation's technology infrastructure. Employees are frequent targets, often through emails that appear legitimate but direct recipients to fraudulent websites, request confidential information, or install malware.

Additionally, social media is increasingly used as a vehicle to carry out cyber-attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to gain entry into the Corporation's systems and obtain confidential information. While the Corporation takes steps to alleviate such risks, as social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that the Corporation may not be able to properly regulate social media use and preserve adequate records of business activities and client communications conducted through the use of social media platforms.

The Corporation maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and conducts regular cybersecurity risk assessments (both internal and third-party) and training and education programs for its employees. Despite PHX Energy's efforts to mitigate such cyber-attacks through education and training, malicious cyber-activities remain a serious problem that may damage its information technology

infrastructure. The Corporation applies technical and process controls in line with industry-accepted standards to protect its information, assets and systems including a written incident response plan for responding to a cybersecurity incident. However, these controls may not adequately prevent cybersecurity breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Corporation's performance and earnings, as well as its reputation, and any damages sustained may not be adequately covered by the Corporation's current insurance coverage, or at all. The significance of any such event is difficult to quantify, and may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Data Protection

The protection of customer, employee, and company data is critical to the Corporation's business. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and evolving requirements. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage the Corporation's customer relationships and reputation, and result in lost sales, fines, or lawsuits. In addition, an increasing number of countries have introduced and/or increased enforcement of comprehensive privacy laws or are expected to do so. The continued emphasis on information security as well as increasing concerns about government surveillance may lead customers to request the Corporation to take additional measures to enhance security and/or assume higher liability under its contracts. As a result of legislative initiatives and customer demands, the Corporation may have to modify its operations to further improve data security. Any such modifications may result in increased expenses and operational complexity, and adversely affect its reputation, business, financial condition and results of operations.

Breach of Confidentiality

In the normal course of the Corporation's business, the Corporation may discuss potential business relationships, transactions with third parties, financing solutions or other activities and at which time the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. The Corporation takes commercially reasonable measures to ensure confidentiality agreements are signed by third parties prior to the disclosure of any confidential information or to otherwise ensure the confidentiality of such information is maintained; however, a breach or failure of these measures could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot be predicted, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation would be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Alternatives to and Changing Demand for Petroleum & Petroleum Based Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil and natural gas. In recent years, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum and petroleum based products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar effect on the demand for oil and natural gas products. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect the Corporation's customers and therefore in turn have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flow.

Indigenous Land and Rights Claims

Indigenous groups across Canada have established and asserted treaty entitlements, title to land and Aboriginal rights. While the Corporation does not operate directly on the land of others, including Indigenous lands, the Corporation's customers do. The Corporation may also perform work on customer sites that are subject to agreements between those customers and Indigenous groups. The Corporation does not generally enter into agreements with Indigenous groups; however, its customers may. Any legislative, regulatory, or judicial developments affecting Indigenous land, treaty rights, or related obligations may impact the scope, timing, or feasibility of our customers' projects. A reduction in customer activity resulting from such developments could reduce overall industry activity levels, which may adversely affect the Corporation's operations and financial performance.

In addition, the Corporation's ability to comply with requirements arising under its customers' agreements with Indigenous groups may limit the volume or type of work customers are able to award to the Corporation. This risk is particularly relevant given that a portion of the Corporation's Canadian operations are located in Northeast British Columbia, where Indigenous agreements are common and continue to evolve.

Corporate Governance

This MD&A has been prepared by the management of PHX Energy and it has been reviewed and approved by the Audit Committee and the Board of the Corporation. Additional information relating to the Corporation's Corporate Governance can be found in the Corporation's AIF and in its Information Circular in respect of its annual meeting of Shareholders, each of which are annually filed on SEDAR+ at www.sedarplus.ca.

Disclosure Controls and Procedures

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

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P. Based on that evaluation, the Certifying Officers have concluded that the Corporation's DC&P were effective as at December 31, 2025.

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).

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR and have concluded that the Corporation's ICFR were effective as at December 31, 2025.

There were no changes in the Corporation's ICFR that occurred during the period from October 1, 2025 to December 31, 2025 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provide a reasonable level of assurance and are effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Outstanding Corporation Share Data

	As at February 24, 2026
Common shares outstanding, excluding shares held in trust	45,367,773
Common shares held in trust ⁽ⁱ⁾	3,301
Total common shares outstanding	45,371,074
Dilutive securities:	
Options	941,667
Corporation shares – diluted	46,312,741

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

Selected Annual Financial Information

The following selected annual financial information was obtained from the audited consolidated financial statements prepared in accordance with IFRS, with the exception of net debt.

(Stated in thousands of dollars except per share amounts)

Years ended December 31,	2025	2024	2023
Revenue	709,598	659,663	656,341
Net earnings	54,710	54,622	98,580
Earnings per share - basic	1.21	1.17	1.98
Earnings per share - diluted	1.13	1.16	1.96
Dividends declared per share ⁽³⁾	0.80	0.80	0.65
Loans and borrowings	35,489	16,827	7,564
Net debt (Net cash) ⁽²⁾	6,382	2,664	(8,869)
Total assets	443,164	423,286	385,494

In the 2025-year, both US and Canadian industry activity were weaker compared to levels seen in 2024. Despite this, the demand and reputation of PHX Energy's premium technologies and operational expertise continued to be strong and as a result, the Corporation achieved record annual revenue for the fourth time in 2025. In 2025, revenue increased by 8 percent to \$709.6 million from \$659.7 million in 2024 and in 2024, it increased by 1 percent from \$656.3 million in 2023.

Throughout the year, PHX Energy also gained market share by continuing to build its fleet capacity, particularly RSS. As a result of the Corporation's progressive capital expenditure strategy since 2023, PHX Energy's total assets increased to \$443.2 million as at December 31, 2025 from \$385.5 million at the end of 2023. The Corporation utilized its credit facilities to supplement the cash generated from operating activities to fund capital expenditures in the year. PHX Energy ended the 2025-year with loans and borrowings of \$35.5 million and a cash balance of \$29.1 million, resulting in a net debt⁽²⁾ of \$6.4 million.

In 2025, net earnings of \$54.7 million were flat against net earnings of \$54.6 million in 2024. Earnings in 2025 benefited from higher RSS activity, increased net gain on disposition of drilling equipment, and lower cash-settled share-based compensation expenses but were negatively affected by increased depreciation and amortization expenses that mainly resulted from ongoing fixed asset additions and additional depreciation related to a change in the estimated useful life of certain primary components of motors. In 2024, the Corporation's net earnings decreased by 45 percent to \$54.6 million from \$98.6 million in 2023. Earnings in 2023 benefited from the recognition and utilization of previously unrecognized deferred tax assets while increased direct

⁽²⁾ Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

⁽³⁾ Supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

costs and fewer instances of high dollar valued downhole equipment losses negatively impacted the profitability of the Corporation in the 2024-year.

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24	Sep-24	Jun-24	Mar-24
Revenue	183,892	164,333	167,670	193,704	178,676	160,634	154,230	166,123
Earnings	17,569	8,461	8,522	20,159	14,098	10,160	12,913	17,454
Earnings per share - basic	0.39	0.19	0.19	0.44	0.31	0.22	0.27	0.37
Earnings per share - diluted	0.35	0.16	0.17	0.44	0.30	0.22	0.26	0.37
Dividends paid	9,036	9,092	9,112	9,102	9,183	9,437	9,498	9,453
Cash and cash equivalents	29,107	7,871	10,696	13,971	14,163	14,203	13,798	13,380
Loans and borrowings	35,489	42,406	41,739	26,145	16,827	19,171	9,649	7,547

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Non-GAAP Ratios

a) Adjusted EBITDA

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

The following is a reconciliation of earnings to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Earnings:	17,569	14,098	54,710	54,622
Add:				
Depreciation and amortization drilling and other equipment	16,793	11,846	58,321	44,822
Depreciation and amortization right-of-use asset	843	867	3,456	3,787
Provision for income taxes	157	1,711	10,823	15,658
Finance expense	747	527	2,921	1,948
Finance expense lease liability	460	512	1,921	2,213
Equity-settled share-based payments	48	59	405	480
Unrealized foreign exchange loss	252	18	255	204
Adjusted EBITDA	36,869	29,638	132,812	123,734

b) Adjusted EBITDA Per Share - Diluted

Adjusted EBITDA per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of adjusted EBITDA per share - dilutive is based on the adjusted EBITDA as reported in the table above divided by the diluted number of shares outstanding as quantified in Note 10(b) in the Notes to the Consolidated Financial Statements.

c) Adjusted EBITDA as a Percentage of Revenue

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

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Revenue	183,892	178,676	709,598	659,663
Direct costs	155,137	148,003	598,634	535,169
Gross profit	28,755	30,673	110,964	124,494
Depreciation & amortization drilling and other equipment (included in direct costs)	16,793	11,846	58,321	44,822
Depreciation & amortization right-of-use asset (included in direct costs)	843	867	3,456	3,787
	46,391	43,386	172,741	173,103
Gross profit as a percentage of revenue excluding depreciation & amortization	25%	24%	24%	26%

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
SG&A Costs	15,984	17,567	64,460	68,294
Deduct:				
Share-based compensation (included in SG&A)	159	2,249	5,137	12,254
	15,825	15,318	59,323	56,040
Revenue	183,892	178,676	709,598	659,663
SG&A costs excluding share-based compensation as a percentage of revenue	9%	9%	8%	8%

Capital Management Measures

a) Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Cash flows from operating activities	31,681	17,676	73,156	96,898
Add (deduct):				
Changes in non-cash working capital	(4,726)	2,874	14,875	(4,416)
Interest paid	549	355	2,465	1,241
Income taxes paid	1,805	3,400	14,107	5,972
Funds from operations	29,309	24,305	104,603	99,695

b) Excess Cash Flow

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Cash flows from operating activities	31,681	17,676	73,156	96,898
Add (deduct):				
Changes in non-cash working capital	(4,726)	2,874	14,875	(4,416)
Interest paid	549	355	2,465	1,241
Income taxes paid	1,805	3,400	14,107	5,972
Cash payment on leases	(1,396)	(1,385)	(5,621)	(5,590)
	27,913	22,920	98,982	94,105
Proceeds on disposition of drilling equipment	11,354	10,057	42,286	36,741
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	(3,119)	(2,134)	(23,334)	(9,899)
Net proceeds	8,235	7,923	18,952	26,842
Growth capital expenditures	(6,362)	(13,580)	(48,959)	(73,378)
Excess cash flow	29,786	17,263	68,975	47,569

c) Working Capital

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

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

(Stated in thousands of dollars)

	December 31,	
	2025	2024
Current assets	236,268	214,017
Deduct:		
Current liabilities	(125,358)	(129,472)
Working capital	110,910	84,545

d) Net Debt (Net Cash)

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

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

(Stated in thousands of dollars)

	December 31,	
	2025	2024
Loans and borrowings	35,489	16,827
Deduct:		
Cash	(29,107)	(14,163)
Net debt (Net cash)	6,382	2,664

e) Net Capital Expenditures

Net capital expenditures is comprised of total additions to drilling and other long-term assets, as determined in accordance with IFRS, less total proceeds from disposition of drilling equipment, as determined in accordance with IFRS. This financial measure does not have a standardized meaning and is not a financial measure recognized under GAAP. Management uses net capital expenditures to provide insight as to the Corporation's ability to meet obligations as at the reporting date. PHX Energy's method of calculating net capital expenditures may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Growth capital expenditures	6,362	13,580	48,959	73,378
Maintenance capital expenditures from asset retirements	1,032	-	16,634	5,289
Maintenance capital expenditures to replace downhole equipment losses	2,087	2,134	6,700	4,610
Total capital expenditures	9,481	15,714	72,293	83,277
Deduct:				
Proceeds on disposition of drilling equipment	(11,354)	(10,057)	(42,286)	(36,741)
Net capital expenditures	(1,873)	5,657	30,007	46,536

f) Remaining Balance under ROCS Target

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2025	2024	2025	2024
Excess cash flow	29,786	17,263	68,975	47,569
Targeted 70% of excess cash flow under ROCS	20,850	12,084	48,283	33,298
Deduct:				
Dividends paid to shareholders	(9,036)	(9,183)	(36,342)	(37,570)
Repurchase of shares under the NCIB	-	(4,859)	(3,250)	(20,614)
Remaining balance under ROCS target	11,814	(1,958)	8,691	(24,886)

Supplementary Financial Measures

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

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

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

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

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

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

“Funds from operations per share – diluted” is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of funds

from operations per share - diluted is based on the funds from operations as reported in the table above divided by the diluted number of shares outstanding as quantified in Note 10(b) in the Notes to the Consolidated Financial Statements.

Definitions

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

“Capital expenditures” equate to the Corporation's total acquisition of drilling and other equipment as stated on the Consolidated Statements of Cash Flows and Note 5(b) in the Notes to the Financial Statements.

“Growth capital expenditures” are capital expenditures that were used to expand capacity in the Corporation's fleet of drilling equipment.

“Maintenance capital expenditures” are capital expenditures that were used to maintain capacity in the Corporation's fleet of drilling equipment and replace equipment that were lost downhole during drilling operations.

Cautionary Statement Regarding Forward-Looking Information and Statements

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

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

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

- The Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through its dividend program, the ROCS program and NCIB;
- The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") which targets up to 70 percent of annual excess cash flow to be used for shareholder returns and includes

multiple options including the dividend program, NCIB, and other mechanisms, such as the special dividend, if opportunistic.

- It is the Corporation's intention to continue the current strategy of leveraging the NCIB at opportunistic times as a tool to further reward shareholders under ROCS especially during times of market industry weaknesses.
- Equipment on order as at December 31, 2025 is expected to be delivered within the first half of 2026.
- The anticipated 2026 capital expenditure budget of \$60 million, of which approximately 40 percent is anticipated to be spent on growth. The growth portion is expected to be directed toward continuing to expand our high margin technologies, including RSS and supporting greater activity in the Atlas motor rental division. The remainder is anticipated to be spent on maintenance of the fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations.
- The planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary.
- The Board will continually review the dividend program and its ROCS and take into consideration, without limitation, the Corporation's financial performance, forecasted activity levels and the industry outlook, among other factors. The actual amount of future quarterly dividends, if any, remains subject to the approval of and declaration by the Board. The Board reviews the Corporation's dividend policy in conjunction with their review of quarterly financial and operating results. The Corporation's ability to maintain the current level of dividends to its shareholders is dependent upon the realization of sufficient cash flow from operating activities, among other considerations, and if the Corporation does not meet its budgeted cash flow from operating activities, dividends to shareholders may be reduced or suspended entirely
- The section of this MD&A related to the Corporation's activity in the upcoming year and industry rig counts among other matters.

The above are stated under the headings: "Overall Performance", "Dividends and ROCS", "Capital Spending", "Liquidity", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Dividends and ROCS", "Cash Flow and Dividends", "Critical Accounting Estimates and Judgements", "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, without limitation, that: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions and the accuracy of the Corporation's market outlook expectations for 2026 and beyond; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation; the duration and impact of tariffs that are currently in effect on goods exported from or imported into Canada, and that other than the tariffs that are currently in effect, neither the US nor Canada (i) increases the rate or scope of such tariffs, reenacts tariffs that are currently suspended, or imposes new tariffs, on the import

of goods from one country to the other, or (ii) imposes any other form of tax, restriction, or prohibition on the import or export of products from one country to the other; anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the potential impact of trade wars, pandemics, the Russian-Ukrainian war, Middle-East conflict, US-Venezuela conflict and other world events on the global economy, specifically trade, manufacturing, supply chain, inflation and energy consumption, among other things and the resulting impact on the Corporation's operations and future results which remain uncertain; exchange and interest rates, and inflationary pressures including the potential for further interest rate hikes by global central banks and the impact on financing charges and foreign exchange and the anticipated global economic response to concerted interest rate hikes; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, dividends, and ROCS, which are subject to change; and market conditions and future oil and natural gas prices and resulting demand for related services. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

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

costs; and certain other risks detailed in PHX Energy's public disclosure documents. Readers should also carefully consider the risks discussed in the section entitled "Business Risk Factors" contained within this MD&A.

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

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

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

Corporate Information

Board of Directors

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

Officers

John Hooks
Executive Board Chair
Michael Buker
President & CEO
Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary
Craig Brown
Chief Technology Officer
Jeffery Shafer
Chief Operating Officer
Garrett Wright
Phoenix Technology Services USA Inc.
Vice President US Operations
David Raines
Phoenix Technology Services USA Inc.
Vice President US Sales & Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

Royal Bank of Canada
HSBC USA N.A.

Transfer Agent

Odyssey Trust Company
Calgary, Alberta