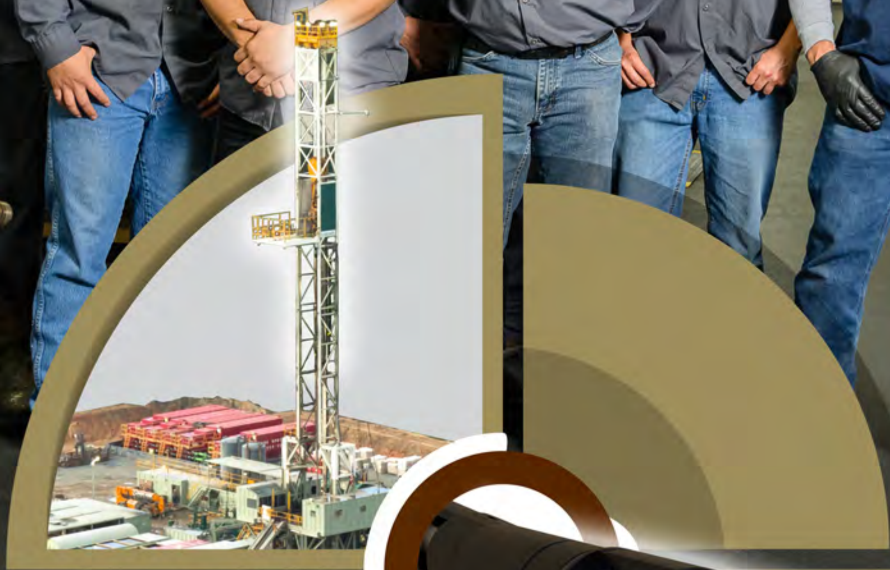

2022
Annual Report

PHX
ENERGY SERVICES CORP.

Management's Discussion and Analysis

Fourth Quarter and Year-End Report for the three and twelve-month periods ended December 31, 2022 and 2021

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, 2022 and 2021 and the accompanying notes contained therein as well as other sections contained within the Corporation's 2022 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.sedar.com. This MD&A has been prepared taking into consideration information available up to and including February 28, 2023.

PHX Energy's audited annual financial statements for the years ended December 31, 2022 and 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), 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 28, 2023.

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.

Fourth Quarter Highlights

- For the three-month period ended December 31, 2022, PHX Energy generated consolidated revenue of $157.8 million, the highest level of quarterly revenue in the Corporation's history and an increase of 54 percent from the fourth quarter of 2021.
- Adjusted EBITDA(1) from continuing operations increased to $33.9 million, 21 percent of consolidated revenue(1). This is also PHX Energy's highest level of quarterly adjusted EBITDA and all-time record as a percentage of consolidated revenue. Included in the 2022-quarter's adjusted EBITDA is $6.9 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations(1) in the fourth quarter of 2022 was $40.8 million, 26 percent of consolidated revenue.
- Earnings from continuing operations doubled to $20.3 million in the 2022-quarter from $9.3 million in the 2021 three-month period.
- PHX Energy's strong momentum in the US continued, with the Corporation's US division generating its highest quarterly revenue for the fourth consecutive quarter. US revenue was $125.7 million in the fourth quarter of 2022, representing 80 percent of consolidated revenue.

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(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.

- The US dollar remained strong and continued to have a favorable impact to the 2022-quarter's financial results. In the 2022 three-month period, the average US dollar to Canadian dollar foreign exchange rate was 1.36 compared to 1.26 in the 2021-period.
- The Corporation generated excess cash flow(2) of $14.3 million, a 119 percent increase over the fourth quarter of 2021.
- In the 2022-quarter, PHX Energy paid $5.1 million in dividends which is double the dividends paid in the same 2021-quarter. On December 15, 2022, the Corporation declared a dividend of $0.15 per share or $7.6 million, paid on January 16, 2023 to shareholders of record on December 30, 2022.

Year End Highlights

- For the year ended December 31, 2022, PHX Energy generated consolidated revenue of $535.7 million, the highest level of annual revenue in the Corporation's history and an increase of 58 percent from 2021.
- Adjusted EBITDA(1) from continuing operations increased to $92.7 million, 17 percent of consolidated revenue(1). This is also PHX Energy's highest level of annual adjusted EBITDA. Included in the 2022-year's adjusted EBITDA is $24.6 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations(1) in the 2022-year was $117.3 million, 22 percent of consolidated revenue.
- Earnings from continuing operations increased to $44.3 million in the 2022 twelve-month period from $23.3 million in the comparative 2021-period, a 90 percent increase. This is an all-time record level of annual earnings for the Corporation.
- The Corporation maintained a strong financial position with working capital(2) of $94.3 million and net debt(2) of $4.5 million with credit facility capacity in excess of $57 million as at December 31, 2022.

PHX Energy achieved these financial results despite continued constraints in activity and equipment utilization that resulted from ongoing supply chain challenges and inflation. The resulting increased costs and component shortages with certain suppliers are expected to have less of an impact in 2023 and the Corporation will continue to leverage its strong market position and implement strategies to mitigate the impacts to its operations.

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(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.

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,		
	2022	2021	% Change	**2022**	2021	% Change
Operating Results – Continuing Operations	***(unaudited)***	*(unaudited)*				
Revenue	**157,758**	102,296	54	**535,745**	339,946	58
Earnings	**20,333**	9,330	118	**44,311**	23,318	90
Earnings per share – diluted	**0.39**	0.18	117	**0.87**	0.45	93
Adjusted EBITDA [(1)]	**33,874**	17,410	95	**92,719**	60,164	54
Adjusted EBITDA per share – diluted [(1)]	**0.66**	0.34	94	**1.83**	1.16	58
Adjusted EBITDA as a percentage of revenue [(1)]	**21%**	17%		**17%**	18%	
Cash Flow – Continuing Operations						
Cash flows from operating activities	**8,970**	12,968	(31)	**38,338**	45,548	(16)
Funds from operations [(2)]	**25,068**	13,772	82	**72,482**	51,211	42
Funds from operations per share – diluted [(3)]	**0.49**	0.27	81	**1.43**	0.99	44
Dividends paid per share [(3)]	**0.10**	0.05	100	**0.300**	0.125	140
Dividends paid	**5,078**	2,505	103	**15,148**	6,291	141
Capital expenditures	**21,474**	11,122	93	**73,525**	35,281	108
Excess cash flow [(2)]	**14,268**	6,513	119	**21,113**	22,850	(8)
Financial Position, December 31,						
Working capital [(2)]				**94,339**	57,872	63
Net debt (Net cash) [(2)]				**4,484**	(24,829)	n.m.
Shareholders' equity				**176,878**	134,432	32
Common shares outstanding				**50,896,175**	47,978,662	6

n.m. – not meaningful

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

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

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

Non-GAAP and Other Financial Measures

Throughout this MD&A, PHX Energy uses certain measures to analyze financial performance, financial position, and cash flow. These Non-GAAP and other specified financial measures do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP") and include Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures (collectively referred to as "Non-GAAP and Other Financial Measures"). These non-GAAP and other specified financial measures include, but are not limited to, adjusted EBITDA, adjusted EBITDA per share, adjusted EBITDA as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization and government grants, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, funds from operations, funds from operations per share, excess cash flow, net capital expenditures, net debt, and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Outlook

2022 was undoubtedly the strongest year in our history, as we set many all-time financial records, and built upon our position as a market leader while maintaining our balance sheet strength. With the high level of performance achieved, we are positioned to continue to leverage our operational strength to create further growth while upholding our commitment to reward shareholders.

- In 2023, we anticipate that the accelerated growth in industry activity will stabilize, plateauing at an average of 1,000 active rigs per day in North America. We believe that this will be the result of a weakening in commodity prices, but even with these lower rates the industry will remain in a healthy position that will support further growth, particularly in our US division.

- Through 2022 our premium technology remained in high demand and our fleet operated at capacity, even as new assets were brought online, as this demand outpaced our supply with climbing rig counts. Supply chain product and component shortages delayed the delivery of some of the 2022 capital expenditures, and we anticipate receiving these deliveries in the first half of 2023.

- We believe the 2023 capital expenditure program will allow us to meet the ongoing demand for our premium technology as operators continue to seek technologies, like ours, that increase the speed at which they drill. In 2023, we anticipate growing our market share as the industry activity flattens and we will see the full benefit from the record level of net capital expenditures in 2022 and expenditures planned for 2023.
- We will continue to diligently act to protect our operating margins as inflation continues to be a prominent factor in all aspects of our business. Our supply chain department will work proactively to control costs and inventory levels, and as in the previous year, we will strive to implement purchasing and marketing strategies to offset further cost increases.
- The strength of our US operations led to all-time record divisional revenue being achieved in 2022, and even with this growth we only touched 10 percent of rigs in the US land market with our technology, including full service work and motor rentals. There is another 90 percent of this market that we believe we can gain a portion of, leveraging our strong brand and premium technologies to generate opportunities for greater revenue streams with attractive margins. Additionally, similar opportunities continue to exist in select international markets.
- We are committed to maintaining one of the strongest balance sheets in the sector with minimal or no net debt, remaining disciplined in our approach to capital spending, and focused on profitability while providing shareholders attractive total return. We intend to continue to do so through our Return of Capital Strategy ("ROCS") which will potentially allow us to return up to 70 percent of excess cash flow to shareholders through both base dividend, and the possibility of special dividends (more information on the ROCS can be found in the Return of Capital Strategy section of this MD&A).

We believe we are strategically positioned to continue our successes and remain the leader in our sector in 2023. We employ an exceptional team of people who embody a culture of superior customer service and operational excellence. We believe their unwavering focus on utilizing our industry-leading technology and expertise to deliver faster, more efficient drilling operations will continue to generate strong revenue and profitability in the upcoming year. We will remain diligent in leveraging these operational strengths to maintain our healthy financial position and to allow us to execute on strategies that will fulfill our commitment to shareholder returns, as described in the ROCS.

Michael Buker, President
February 28, 2023

Overall Performance

In the three-month period and year ended December 31, 2022, PHX Energy achieved the highest level of quarterly and annual revenue and adjusted EBITDA[(1)] in its history.

In the fourth quarter of 2022, the Corporation generated consolidated revenue of $157.8 million, an increase of 54 percent as compared to $102.3 million in the 2021-quarter. Consolidated operating days grew by 24 percent to 7,509 days from 6,070 days in the corresponding 2021-quarter. For the year ended December 31, 2022, the Corporation's consolidated revenue increased by 58 percent to $535.7 million from $340 million in 2021. PHX Energy's activity levels grew by 33 percent with consolidated operating days increasing to 28,368 days in 2022 from 21,310 days in 2021. Revenue growth in both the 2022-quarter and year were primarily driven by: stronger industry activity; increased capacity in the Corporation's high performance technologies, in particular, the Atlas High Performance motors ("Atlas"), Velocity Real-Time systems ("Velocity"), and PowerDrive Orbit Rotary Steerable Systems ("RSS"); and pricing increases that were achieved as a result of the strong demand for PHX Energy's premium technologies and targeted marketing efforts to help mitigate inflationary costs.

For the fourth consecutive quarter, PHX Energy's US operations generated its highest quarterly revenue in the Corporation's history. In the 2022 three-month period, US revenue grew by 57 percent to $125.7 million (2021 - $79.9 million) while US operating days increased by 28 percent to 4,843 (2021 – 3,783). In the 2022-quarter, revenue from the Corporation's US division represented 80 percent of consolidated revenue (2021 – 76 percent).

The Corporation's Canadian division also experienced growth in the quarter generating revenue of $30.7 million, a 37 percent increase from $22.5 million in the same 2021-quarter. PHX Energy's Canadian segment recorded 2,571 operating days in the 2022-quarter, a 12 percent increase from the 2,287 operating days realized in the comparable 2021-period.

Throughout 2022, the Corporation implemented strategies to mitigate the negative impacts of supply chain challenges and inflationary pressures. These strategies, together with growth in revenue and activity, helped yield record results in profitability. In the fourth quarter of 2022, adjusted EBITDA from continuing operations increased by 95 percent to $33.9 million (21 percent of revenue) from $17.4 million (17 percent of revenue) in the same 2021-quarter, while earnings from continuing operations doubled to $20.3 million from $9.3 million in the comparable 2021-period. For the year ended December 31, 2022, PHX Energy realized adjusted EBITDA from continuing operations of $92.7 million (17 percent of revenue), a 54 percent improvement compared to the $60.2 million (18 percent of revenue) reported in the 2021-year. Earnings from continuing operations for the 2022-year increased to $44.3 million from $23.3 million in the 2021-year. Included in the 2021-year adjusted EBITDA and earnings from continuing operations is $8.8 million of government grants compared to $0.3 million included in the 2022-year.

[(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.

Also included in the 2022 three and twelve-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $6.9 million (2021 - $3 million) and $24.6 million (2021 - $12.9 million), respectively. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations for the three and twelve-month period ended December 31, 2022 is $40.8 million (2021 - $20.4 million) and $117.3 million (2021 - $73.1 million), respectively.

The Corporation continued to maintain a strong financial position with working capital of $94.3 million and net debt of $4.5 million with available credit facilities in excess of $57 million.

Dividends

In November 2022, the Board approved another increase to the Corporation's quarterly dividend to $0.15 per common share from $0.10 per common share, which commenced with the dividend payable January 16, 2023 to shareholders of record at the close of business on December 30, 2022. An aggregate of $7.6 million was paid on January 16, 2023. This is the fourth dividend increase since its re-instatement in December 2020 and is a 500 percent increase from the dividend payable on December 31, 2020.

Return of Capital Strategy

In the fourth quarter of 2022, PHX Energy's Board approved a Return of Capital Strategy ("ROCS") that establishes the Corporation's intention for creating unprecedented shareholder returns. Highlights of the ROCS include:

- Maintaining a strong balance sheet with little to no bank debt.
- Growth capital expenditures will be available for expanding the fleet in the most attractive basins.
- Base dividends will remain a focus.
- Special dividends may be considered with available excess cash.
- Share buy backs may be considered if deemed accretive.

The Return of Capital Strategy approved by the Board will potentially allow up to 70 percent of 2023 excess cash flow[(1)] to be used for shareholder returns.

[(1)] 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.

Capital Spending

For the year ended December 31, 2022, the Corporation spent $73.5 million in capital expenditures, of which $48.5 million was spent on growing the Corporation's fleet of drilling equipment (2021 - $23.1 million) and the remaining $25 million was spent on maintaining capacity in the Corporation's fleet of drilling and other equipment and replacing equipment lost downhole during drilling operations (2021 - $12.2 million). With proceeds on disposition of drilling and other equipment of $27.5 million, the Corporation's net capital expenditures[(1)] for the 2022-year were $46.1 million (2021 - $22.9 million). Capital expenditures in the 2022-year were primarily directed towards Atlas motors, Velocity systems, and RSS. PHX Energy funded capital spending primarily using cash flows from operating activities, proceeds on disposition of drilling equipment, and its credit facilities when required.

The approved capital expenditure budget for the 2022-year was $85 million. Due to global supply chain disruptions, the Corporation received only $73.5 million of drilling and other equipment in 2022. The remaining $11.5 million from the 2022 budget has been carried forward into the 2023 capital expenditure budget. As a result of this carry over, PHX Energy now anticipates spending $61.5 million, previously announced $50 million, in capital expenditures during 2023. Of the total expenditures, $41.8 million is expected to be allocated to growth capital and the remaining $19.7 million is expected to be allocated towards maintenance of the existing fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations. The maintenance capital amount could increase throughout the year should there be more downhole equipment losses than forecasted. These increases would likely be funded by proceeds on disposition of drilling equipment.

As at December 31, 2022, the Corporation has capital commitments to purchase drilling and other equipment for $43.3 million, $19.6 million of which is growth capital and includes $14.4 million for performance drilling motors and $5.2 million for other equipment. Equipment on order as at December 31, 2022 is expected to be delivered within the first half of 2023.

The Corporation currently possesses approximately 647 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8" and 9" Atlas motors, 112 Velocity systems, and 51 PowerDrive Orbit RSS, the largest independent fleet in North America.

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Supply Chain Disruptions and Inflation

Throughout 2022 industry and economic conditions continued to improve as most of the COVID-19 restrictions have been lifted by governments. However, supply chain challenges escalated and continued to create shortages and inflation related to the products and services required within the energy sector, including those within the Corporation's supply chain. These shortages resulted in increased turn-around times for servicing the Corporation's premium technologies and in turn limited equipment utilization and constrained activity growth. Inflationary pressures led to overall cost increases and have negatively impacted the Corporation's margins.

PHX Energy has been proactive with efforts to lessen the supply chain disruptions' impact on its operations. Specifically, the Corporation has maintained higher minimum safety stock levels and taken advantage of pre-ordering materials to manufacture technology and obtain bulk discounts, and as a result, inventory levels have increased by 72 percent from $36.7 million at the end of 2021 to $63.1 million at December 31, 2022. In addition, to mitigate the impact of inflationary costs and to protect its margins, the Corporation also continues to pursue pricing increases where possible.

Additional information regarding certain material risks and uncertainties, and their impact on the Corporation's business can be found throughout this MD&A, including under the headings "Capital Spending", "Operating Costs and Expenses", "Business Risks Factors" and "Outlook".

Divesture of Russian Subsidiary

On June 30, 2022, PHX Energy divested Phoenix TSR LLC ("Phoenix TSR") and exited Russia. The divestiture resulted in a loss on disposition of $3.5 million and the recognition of $10.6 million in foreign exchange losses resulting from accumulated currency translation adjustments. Pursuant to the disposition of Phoenix TSR, the Corporation has terminated all presence in Russia. The results of Phoenix TSR have been presented as a discontinued operation, separate from continuing operating results at December 31, 2022 and 2021.

Shares Held in Trust

During the 2022-year, the Corporation equity settled a portion of its outstanding Retention Awards ("RA") granted under its Retention Award Plan (the "RAP"). Pursuant to RA settlements, 2,277,875 common shares were released from the independent trustee in 2022 to settle $14.6 million in RAP liabilities. The independent trustee acquires common shares on the open market from time-to-time for the potential settlement of future share-based compensation obligations of the Corporation. For the twelve-month period ended December 31, 2022, the trustee purchased 626,400 common shares for a total cost of $4.1 million. As at December 31, 2022, 11,064 common shares were held in trust for purposes of the RAP.

Normal Course Issuer Bid

During the third quarter of 2022, the TSX approved the renewal of PHX Energy's Normal Course Issuer Bid ("NCIB") to purchase for cancellation, from time-to-time, up to a maximum of 3,622,967 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 3, 2022. The NCIB commenced on August 16, 2022 and will terminate on August 15, 2023 or such earlier time as the NCIB is completed or terminated by PHX Energy. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

For the year ended December 31, 2022, the Corporation did not repurchase shares through its previous or current NCIB. Pursuant to the previous NCIB, 1,499,900 common shares were purchased during the 2021-year by the Corporation and cancelled.

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 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, develops 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. ("Phoenix USA"), is headquartered in Houston, Texas. Phoenix USA has sales and service facilities in Houston, Texas; Casper, Wyoming; Midland, Texas; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania, and administrative offices in Nicosia, Cyprus and Luxembourg City, Luxembourg. The Corporation also operates in the Middle East regions through an arrangement with National Energy Services Reunited Corp.

As at December 31, 2022, PHX Energy had 843 full-time employees (2021 – 707) and the Corporation utilized over 160 additional field consultants in 2022 (2021 – over 120).

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

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 (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.

Industry Activity and Statistics

In 2022, the North American industry continued to rebound from the lows reached in 2020, which was one of the worst downturns in its history. As economies recover from the COVID-19 pandemic, energy demand has grown and rig counts and commodity prices improved. Additionally other geo-political and economic factors contributed to the industry strengthening, including the supply concerns caused by the Russian-Ukraine war.

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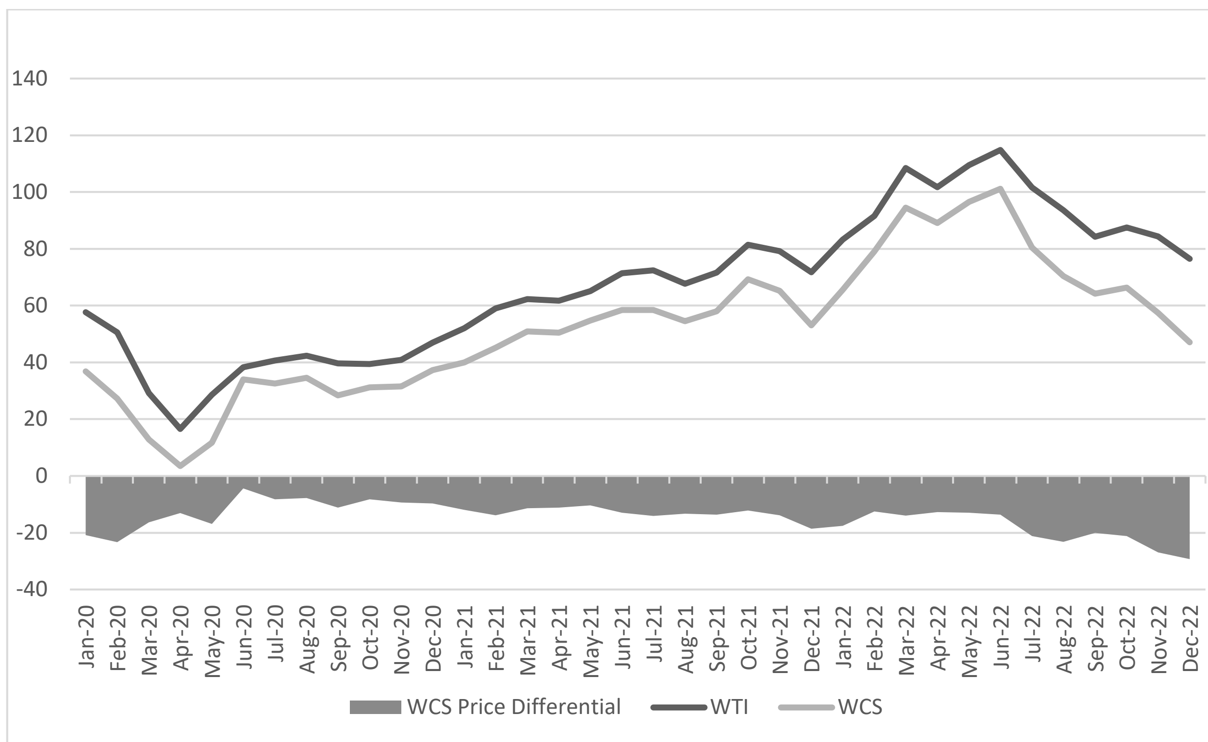
(2) Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this MD&A.

Commodity Price Trends

The recovery of commodity prices seen in 2021 continued in 2022 as energy demand returned after being suppressed by the COVID-19 pandemic's impact on the global economy in 2020 and with the impact of the Russian-Ukraine War on energy supply. The average Western Texas Intermediate ("WTI") price was 39 percent higher in 2022 at approximately USD $95 per barrel for the year (2021 – USD $68). The average price of Western Canadian Select ("WCS") increased by 41 percent and was USD $76 per barrel in 2022 (2021 – USD $54). The average differential between WTI and WCS grew as compared to the prior year and was USD $18.78 in 2022 (2021 - $13.10). (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

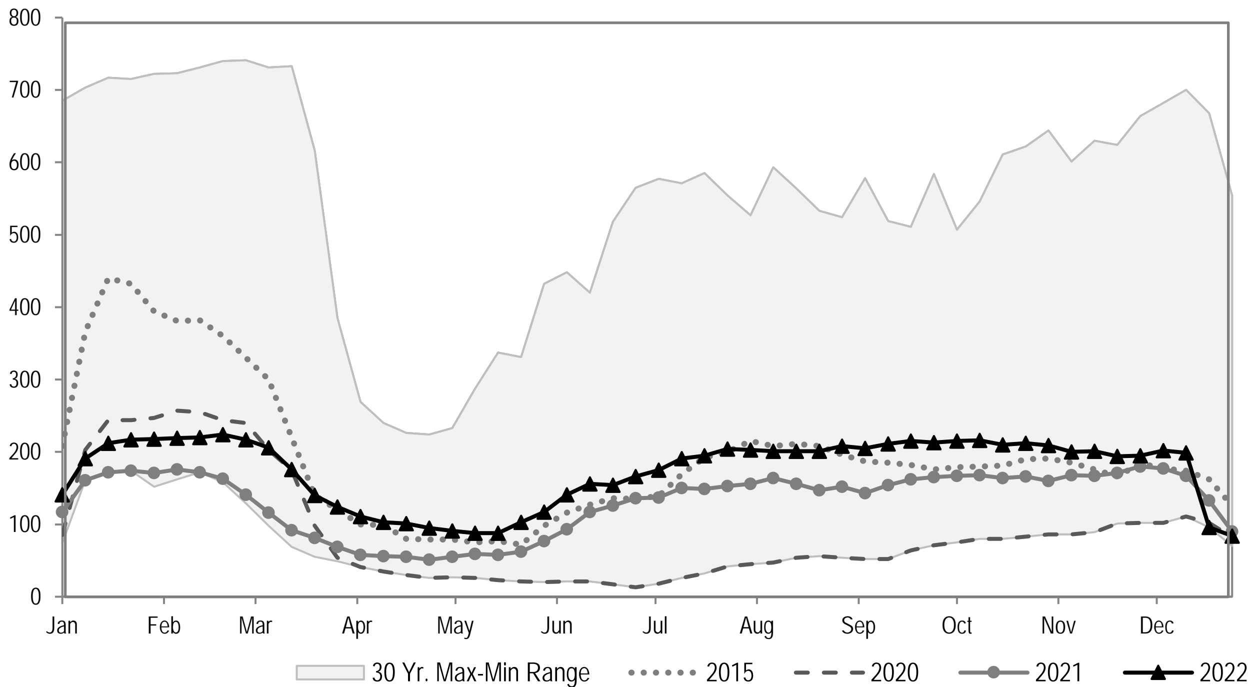


Natural gas commodity prices continued to strengthen in 2022. The Henry Hub spot price averaged USD $6.52 per gigajoule in 2022 (2021 – USD $3.72) while AECO-C spot averaged CAD $5.41 per gigajoule in 2021 (2021 – CAD $3.63) (Source: Peters & Co. Limited, Energy Update, 01-23-23).

Canadian Industry

WCSB Active Drilling Rig Count

Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count

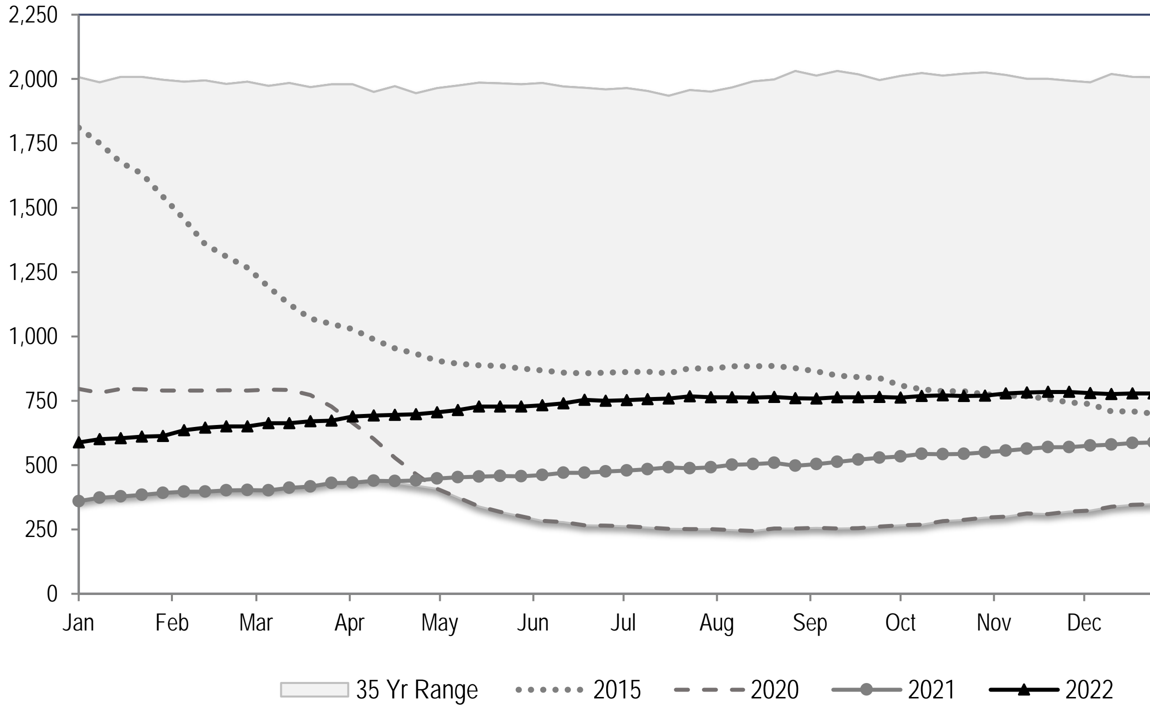


The Canadian market's activity continued to improve in 2022, with an average of 175 active rigs per day. This level of activity is 34 percent more than the 131 rigs operating on average in 2021 and is 22 percent greater than the 5-year average of 144 active rigs. Horizontal and directional drilling continues to be the norm in the industry, and combined, horizontal and directional wells represented 97 percent of the total 2022 industry drilling days (2021 – 95 percent). Oil well drilling represented 63 percent of the Canadian industry's average active rig count in 2022 which is slightly higher than the 57 percent in 2021. (Source: Daily Oil Bulletin, hz-dir days 221231 and Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count).

US Industry

US Active Drilling Rig Count

Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count



The US rig count grew consistently in 2022, with the Permian basin remaining the most active area with half the active rigs nationally. The average rig count increased 51 percent annually to 723 rigs operating per day in the 2022-year, as compared to an average of 478 rigs in 2021. Annually there was an average of 335 active rigs (2021 – 240 active rigs) in the Permian basin. Horizontal and directional drilling continued to represent 96 percent of active rigs (2021 – 95 percent). (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count).

Results of Operations

Three-Month Period and Year Ended December 31, 2022

Revenue

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**157,758**	102,296	54	**535,745**	339,946	58

In the three-month period and year ended December 31, 2022, PHX Energy achieved its highest-ever quarterly and annual revenue, surpassing the previous records set in the fourth quarter and year ended 2014. For the three-month period ended December 31, 2022, consolidated revenue increased by 54 percent to $157.8 million compared to $102.3 million in the corresponding 2021-quarter. For the year ended December 31, 2022, consolidated revenue was $535.7 million, an increase of 58 percent, compared to $340 million in 2021. In the 2022-quarter and year, PHX Energy continued to expand its fleet capacity to address the strong growing demand for its premium technologies as the North American industry's rig count continued to improve with the support of robust commodity prices.

During the fourth quarter of 2022, the Western Texas Intermediate ("WTI") crude oil price was 7 percent higher than in the 2021-quarter averaging USD $83/bbl (2021-quarter – USD $77/bbl) and the Western Canadian Select ("WCS") oil prices declined by 7 percent, averaging CAD$74/bbl (2021-quarter – CAD $79/bbl) (Source: Peters & Co. Limited, Energy Update, 01-23-23). Industry activity levels in both Canada and the US improved quarter-over-quarter. In the US, the 2022 fourth quarter average number of rigs operating per day was 776 (2021-quarter – 559 rigs) while in Canada, the average for the same period was 199 (2021-quarter – 159 rigs) (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). In comparison, the Corporation's consolidated operating days grew by 24 percent to 7,509 days in the 2022 three-month period from 6,070 days in the corresponding 2021-period. For the year-ended December 31, 2022, there were 28,368 consolidated operating days recorded which is 33 percent more than the 21,310 days in the 2021-year.

The record quarterly and annual revenue achieved in 2022 were also supported by pricing increases realized during these periods and the favorable impact of the US dollar strengthening in the 2022-periods relative to 2021. Average consolidated

revenue per day[1], excluding the motor rental division in the US, for the three-month period ended December 31, 2022, was $19,974 an increase of 24 percent as compared to $16,122 in the 2021-quarter. The 2022 annual average consolidated revenue per day, excluding the motor rental division in the US, was $18,097 compared to $15,298 in 2021, an 18 percent increase.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Direct costs	**121,906**	82,138	48	**426,107**	270,637	57
Depreciation & amortization drilling and other equipment (included in direct costs)	**8,876**	6,898	29	**32,119**	25,860	24
Depreciation & amortization right-of-use asset (included in direct costs)	**805**	837	(4)	**3,235**	3,336	(3)
Gross profit as a percentage of revenue excluding depreciation & amortization and government grants[2]	**29%**	27%		**27%**	27%	

Direct costs are comprised of field and shop expenses and include depreciation and amortization on the Corporation's equipment and right-of-use assets. For the three-month period and year ended December 31, 2022, direct costs increased by 48 and 57 percent, respectively. Higher direct costs in both periods were largely driven by activity growth, greater depreciation and amortization expenses on drilling and other equipment, and rising costs related to personnel, repair parts, and equipment rentals as a result of inflation. In the 2022-year, PHX Energy's equipment rental costs increased to 7 percent of consolidated revenue from 6 percent in 2021.

The Corporation's depreciation and amortization on drilling and other equipment for the three-month period and year ended December 31, 2022, increased by 29 percent and 24 percent, respectively with a significant number of fixed assets received throughout 2022 as the capital expenditure program was increased to help mitigate supply chain challenges and increase capacity to meet growing demand.

[1] 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.

[2] 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.

In the three and twelve-month periods of 2022, gross profit as a percentage of revenue excluding depreciation and amortization and government grants was 29 percent and 27 percent, respectively, compared to 27 percent in both corresponding 2021 periods. Included in the 2021-year's direct costs are $6.5 million in government grants. Despite the negative impacts of inflation, PHX Energy was able to sustain and improve profitability levels through effective implementation of various strategies to soften the impact of rising costs, including but not limited to, volume discounts and continuous efforts to achieve cost efficiencies across all major aspects in the Corporation's operations.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Selling, general and administrative ("SG&A") costs	**19,365**	13,044	48	**68,901**	44,982	53
Cash-settled share-based compensation (included in SG&A costs)	**6,938**	2,972	133	**24,568**	12,889	91
Equity-settled share-based compensation (included in SG&A costs)	**58**	49	18	**451**	384	17
SG&A costs excluding share-based compensation as a percentage of revenue[(1)]	**8%**	10%		**8%**	9%	

For the three-month period and year ended December 31, 2022, SG&A costs were $19.4 million and $68.9 million, respectively, as compared to $13 million and $45 million in the corresponding 2021-periods. In both 2022-periods, higher SG&A costs were primarily a result of greater personnel costs necessary to support activity growth and increased compensation expenses related to cash-settled share-based awards. SG&A costs in the 2021-year also included $1.9 million of government grants.

Cash-settled share-based compensation relates to the Corporation's retention awards and are measured at fair value. For the three-month period and year ended December 31, 2022, the related compensation expense recognized by PHX Energy was $6.9 million (2021 - $3 million) and $24.6 million (2021 - $12.9 million), respectively. Changes in cash-settled share-based compensation expense in the 2022-periods were mainly driven by increases in the Corporation's share price period-over-period. There were 2,845,191 retention awards outstanding as at December 31, 2022 (2021 – 3,267,579). Excluding share-based compensation, SG&A costs as a percentage of revenue for the 2022 three and twelve-month periods improved to 8 percent in both periods as compared to 10 percent and 9 percent, respectively, in the corresponding 2021-periods.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Research and development expense	**1,184**	1,049	13	**3,723**	2,774	34

(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.

Throughout the 2022-year with the increase in activity levels and the capacity of the premium technology fleet, PHX Energy's research and development ("R&D") department worked on a greater number of initiatives to improve the reliability of equipment, reduce costs to operations, and develop new technologies. To support these initiatives, greater personnel related costs and prototype expenses were necessary. For the three-month period and year ended December 31, 2022, PHX Energy's R&D expenditures increased to $1.2 million and $3.7 million, respectively, from $1 million and $2.8 million in the corresponding 2021-periods. R&D expenses in the 2022 twelve-month period included $0.2 million of government grants (2021 – $0.4 million).

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Finance expense	**487**	115	n.m.	**1,360**	494	175
Finance expense lease liabilities	**525**	516	2	**2,032**	2,125	(4)

n.m. – not meaningful

Finance expense mainly relates to interest charges on the Corporation's credit facilities. For the three-month period and year ended December 31, 2022, finance expense increased to $0.5 million (2021 - $0.1 million) and $1.4 million (2021 - $0.5 million), respectively, primarily due to higher drawings on the credit facilities that were used to fund PHX Energy's capital spending. Rising variable interest rates on the Corporation's operating and syndicated facilities also contributed to the increase in finance expense in both 2022-periods.

Finance expense lease liabilities relate to interest expenses incurred on lease liabilities. For both the three and twelve-month periods ended December 31, 2022, finance expense lease liabilities were relatively flat at $0.5 million and $2 million, respectively (2021 - $0.5 million and $2.1 million, respectively).

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Net gain on disposition of drilling equipment	**(8,693)**	(3,483)	**(19,492)**	(7,746)
Foreign exchange loss	**5**	100	**287**	85
Recovery of bad debts	**(11)**	(2)	**(13)**	(281)
Other	**-**	-	**(512)**	-
Other income	**(8,699)**	(3,385)	**(19,730)**	(7,942)

For the three-month period and year ended December 31, 2022, the Corporation recognized other income of $8.7 million and $19.7 million, respectively (2021 - $3.4 million and $7.9 million, respectively). The increases from the 2021-periods were mainly due to higher net gain on disposition of drilling equipment realized in both 2022-periods.

Net gain on disposition of drilling equipment is comprised of gains on disposition of drilling equipment and proceeds from insurance programs. 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 both 2022-periods, as drilling activity grew, more instances of downhole equipment losses occurred as compared to the corresponding 2021-periods, resulting in a higher net gain on disposition of drilling equipment. The Corporation will use capital expenditure funds, including the proceeds from disposition of drilling equipment, to replace this equipment and these amounts will be added to the expected capital expenditures in 2023.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Provision for (Recovery of) income taxes	**2,657**	(511)	**9,042**	3,559
Effective tax rates[2]	**12%**	(6%)	**17%**	13%

For the three-month period and year ended December 31, 2022, the Corporation reported income tax provisions of $2.7 million (2021 - $0.5 million recovery) and $9 million (2021 - $3.6 million), respectively. Higher provisions in the 2022-periods were mainly a result of improved taxable profits in the US.

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

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Operating Results – Continuing Operations						
Earnings	**20,333**	9,330	118	**44,311**	23,318	90
Earnings per share – diluted	**0.39**	0.18	117	**0.87**	0.45	93
Adjusted EBITDA [1]	**33,874**	17,410	95	**92,719**	60,164	54
Adjusted EBITDA per share – diluted [1]	**0.66**	0.34	94	**1.83**	1.16	58
Adjusted EBITDA as a percentage of revenue [1]	**21%**	17%		**17%**	18%	

For the three-month period ended December 31, 2022, the Corporation's adjusted EBITDA from continuing operations as a percentage of revenue increased to 21 percent from 17 percent in the 2021-period while earnings from continuing operations increased to $20.3 million as compared to $9.3 million in the 2021-quarter. These substantial improvements in the Corporation's profitability were achieved primarily as a result of activity growth and effective cost control measures and strategies implemented to shelter margins from the adverse effects of inflationary pressures and supply chain challenges.

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(2) 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.

For the year ended December 31, 2022, adjusted EBITDA from continuing operations as a percentage of revenue decreased slightly to 17 percent from 18 percent in the corresponding 2021-period while earnings from continuing operations increased by 90 percent to $44.3 million from $23.3 million in 2021. Adjusted EBITDA and earnings from continuing operations in the comparative 2021-period included $8.8 million of government grants. Excluding the impact of government grants, 2022 adjusted EBITDA from continuing operations shows an improvement to 17 percent of revenue from 15 percent in the 2021-year.

Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**30,705**	22,335	37	**108,544**	67,354	61
Reportable segment profit (loss) before tax [(i)]	**771**	(1,319)	n.m.	**8,700**	3,489	149

n.m. – not meaningful
[(i)] Includes adjustments to intercompany transactions.

In the three and twelve-month periods of 2022, PHX Energy's Canadian operations realized significant improvements in its activity levels and average revenue per day as the Canadian industry continued to recover with higher volume of active rigs in 2022.

For the three-month period ended December 31, 2022, PHX Energy's Canadian division generated $30.7 million in revenue, an increase of 37 percent compared to $22.3 million in the 2021-quarter. Canadian operating days in the 2022 three-month period rose by 12 percent to 2,571 days compared to 2,287 days in the same 2021-quarter. In comparison, industry horizontal and directional drilling activity, as measured by drilling days, increased by 21 percent to 16,813 in the fourth quarter of 2022 from 13,947 in the 2021-quarter (Source: Daily Oil Bulletin, hz-dir days 221231). The difference between the industry's rate of growth and the Corporation's mainly relates to customer mix, the Corporation's strategies to protect profit margins and the competitive nature of the directional drilling sector.

For the year ended December 31, 2022, PHX Energy's Canadian division's revenue increased by 61 percent to $108.5 million from $67.4 million in the 2021-year. Drilling activity in the Canadian segment improved by 35 percent from 7,269 operating days in 2021 to 9,823 days in 2022. In comparison, for the year ended December 31, 2022, there were 60,276 horizontal and directional drilling days realized in the Canadian industry, compared to the 45,624 days realized in 2021, a 32 percent improvement (Source: Daily Oil Bulletin, hz-dir days 221231). PHX Energy's Canadian operating segment remains a leader in this market being among the top three service providers. During the 2022-year, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, and Scallion basins.

In the 2022 three and twelve-month periods, PHX Energy's Canadian division achieved higher levels of profitability despite the Canadian market remaining highly competitive and the challenges faced in relation to inflation, labour shortages, and supply chain difficulties. For the three-month period and year ended December 31, 2022, the Corporation's Canadian division recognized reportable segment profit before tax of $0.8 million (2021 - $1.3 million of reportable segment loss before tax) and $8.7 million (2021 - $3.5 million), respectively. The improvements in segment profits in both periods were achieved mainly through greater volumes of activity and pricing increases negotiated with customers to help curtail rising costs.

United States

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**125,693**	79,861	57	**423,083**	272,492	55
Reportable segment profit before tax [i]	**23,643**	14,511	63	**64,030**	43,636	47

[i] Includes adjustments to intercompany transactions.

In the fourth quarter of 2022, PHX Energy's US operations once again achieved its highest quarterly revenue in its history. This marks the first year where consecutive all-time record revenue was generated in each quarter and as a result of this cumulative success, the 2022 annual US revenue is the highest on record. For the three-month period ended December 31, 2022, US revenue increased by 57 percent to $125.7 million as compared to $79.9 million in the 2021-quarter. For the year ended December 31, 2022, US revenue grew 55 percent to $423.1 million from $272.5 million in 2021.

In the fourth quarter of 2022, the Corporation's US drilling activity increased by 28 percent to 4,843 days from 3,783 days in the same 2021-quarter while US industry horizontal and directional rig count in the fourth quarter of 2022 increased by 41 percent quarter-over-quarter with an average of 752 active horizontal and directional rigs per day compared to an average of 533 active horizontal and directional rigs per day in the 2021-quarter (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). For the year-ended December 31, 2022, the US segment's operating days were 18,248 days, compared to 14,041 days in the 2021-year; an increase of 30 percent. In

comparison, the US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, grew by 53 percent to 698 rigs in 2022 from 456 rigs in 2021 (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). Horizontal and directional drilling continues to represent the majority of rigs running on a daily basis during the fourth quarter and year ended 2022. During the 2022-year, Phoenix USA was active in the Permian, Scoop/Stack, Marcellus, Utica, Bakken, and Niobrara basins.

Despite significant additions to the fleet that aided stronger activity levels, the Corporation's US growth was constrained by fleet capacity that could not keep up with demand given the supply chain environment. The Corporation's fleet of premium technology operated at maximum capacity during the year, and with this strong demand and targeted marketing efforts, PHX Energy's US division realized price increases in both 2022-periods. For the three-month period ended December 31, 2022, average revenue per day [(1)], excluding the Corporation's US motor rental division, rose by 22 percent to $24,348 from $19,895 in the 2021-quarter. For the year ended December 31, 2022, average revenue per day, excluding the Corporation's US motor rental division, grew by 19 percent to $21,958 from $18,413 in 2021. The strengthening of the US dollar in both 2022-periods also supported the increases in average revenue per day. Omitting the impact of foreign exchange, the average revenue per day, excluding the Corporation's motor rental division, increased by 14 percent quarter-over-quarter and 15 percent year-over-year.

For the three-month period and year ended December 31, 2022, the US segment realized reportable segment income before tax of $23.6 million and $64 million, respectively, compared to the corresponding 2021-periods when the US segment had reportable segment profit before tax of $14.5 million and $43.6 million, respectively. The improved profitability in both 2022-periods was mainly due to growth in activity levels and revenue per day, and effective strategies implemented to mitigate the impacts of inflation.

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
Revenue	**1,360**	100	n.m.	**4,118**	100	n.m.
Reportable segment profit (loss) before tax	**631**	(61)	n.m.	**1,412**	(1,161)	n.m.

n.m. – not meaningful

(1) 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.

The Corporation's international segment revenue is mainly comprised of revenue from Albania. For the three-month period and year ended December 31, 2022, the international segment's revenue was $1.4 million (2021-quarter - $0.1 million) and $4.1 million (2021 - $0.1 million), respectively. Albania operations were suspended in 2021 and resumed late in the first quarter of 2022 with one rig.

With the resumption of activity in 2022, the international segment generated reportable segment profit before tax of $0.6 million in the 2022 three-month period compared to reportable segment loss before tax of $0.1 million in the 2021-period. For the year-ended December 31, 2022, the international segment realized reportable segment profit before tax of $1.4 million from a loss of $1.2 million in the corresponding 2021-year.

Discontinued Operations – Russia

On June 30, 2022, the Corporation disposed of the Russian division operating under the entity, Phoenix TSR. Accordingly, for the three and twelve-month periods ended December 31, 2022, the Russian operations and loss on disposition have been presented as discontinued operations.

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Revenue	**-**	3,133	**7,443**	9,974
Expenses	**-**	(2,633)	**(5,781)**	(9,390)
	-	500	**1,662**	584
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	**-**	-	**(10,561)**	-
Loss on disposition of Phoenix TSR	**-**	-	**(3,496)**	-
Impairment and other write-offs	**-**	-	**(1,967)**	-
Loss on remeasurement	**-**	(1,178)	**-**	(1,178)
Loss from discontinued operations	**-**	(678)	**(14,362)**	(594)
Income tax (recovery) from discontinued operations	**-**	(1)	**196**	(1)
Loss from discontinued operations, net of taxes	**-**	(677)	**(14,558)**	(593)

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Cash flows from operating activities	**8,970**	12,968	**38,338**	45,548
Funds from operations(1)	**25,068**	13,772	**72,482**	51,211

	Dec. 31, '22	Dec. 31, '21
Working capital(1)	**94,339**	57,872

In both the 2022 three and twelve-month periods, cash flow from operating activities decreased to $9 million and $38.3 million respectively, from $13 million and $45.5 million in the corresponding 2021-periods. The decrease in both periods was mainly due to cash tied up from higher levels of trade and other receivables and increased inventory balances.

For the three-month period and year ended December 31, 2022, funds from operations were $25.1 million and $72.5 million, respectively, as compared to $13.8 million and $51.2 million in the comparable 2021-periods. The improvement in funds from operations in both 2022-periods was mainly driven by greater activity and improved profitability in all of the Corporation's operating segments.

As at December 31, 2022, the Corporation had working capital of $94.3 million, an increase of $36.4 million from the $57.9 million reported at December 31, 2021. The increase in working capital at December 31, 2022 was primarily due to higher trade and other receivables resulting from higher revenue and greater inventory levels that are being maintained to address supply chain challenges partially offset by increase in trade and other payables.

Cash Flow and Dividends

In December 2020, PHX Energy reinstated its quarterly dividend program. 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. The actual amount of future quarterly dividends, if any, remains subject to the approval of and declaration by the Board. The Board reviews the Corporation's dividend policy in conjunction with their review of quarterly financial and operating results. The Corporation's ability to maintain the current level of dividends to its shareholders is dependent upon the realization of cash flow from operating activities, among other considerations, and if the Corporation

(1) 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.

does not meet its budgeted cash flow from operating activities, dividends to shareholders may be reduced or suspended entirely.

The Board previously approved a 50 percent increase to the Corporation's quarterly dividend from $0.10 per common share to $0.15 per common share, effective for the dividend payable January 16, 2023 to shareholders of record at the close of business on December 30, 2022. This is the fourth dividend increase since its re-instatement in December 2020, and is a 500 percent increase from the dividend payable on December 31, 2020.

For the three-month period and year ended December 31, 2022, dividends of $5.1 million and $15.1 million, respectively, were financed from the Corporation's funds from operations (2021 - $2.5 million and $6.3 million, respectively).

Investing Activities

Net cash used in investing activities for the year ended December 31, 2022 was $47.3 million as compared to $23.6 million in 2021. During 2022, the Corporation spent $73.5 million (2021 - $35.3 million) on capital expenditures directed towards drilling and other equipment and received proceeds of $27.5 million (2021 - $12.3 million) primarily from involuntary disposal of drilling equipment in well bores.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Growth capital expenditures	**15,252**	7,182	**48,457**	23,078
Maintenance capital expenditures from downhole equipment losses and asset retirements	**6,222**	3,940	**25,068**	12,203
Total capital expenditures	**21,474**	11,122	**73,525**	35,281
Deduct:				
Proceeds on disposition of drilling equipment	**(12,005)**	(5,236)	**(27,459)**	(12,340)
Net capital expenditures[(1)]	**9,469**	5,886	**46,066**	22,941

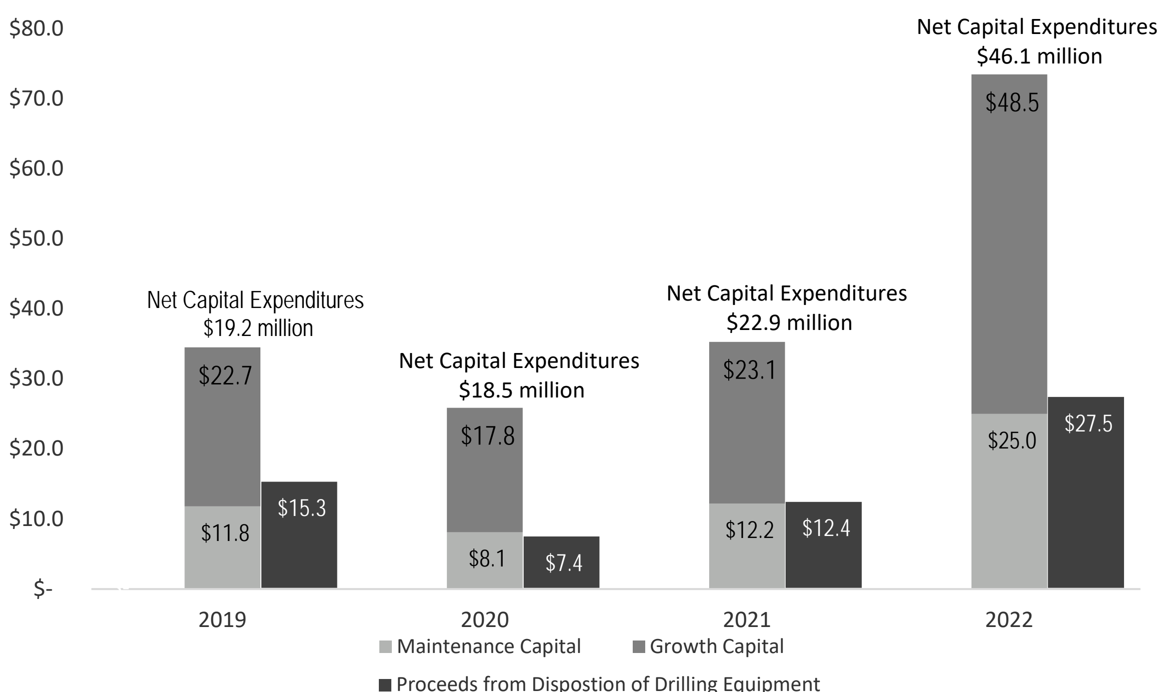
The 2022-year capital expenditures comprised of:

- $31.7 million in downhole performance drilling motors;
- $38.2 million in MWD systems and spare components and RSS; and
- $3.6 million in machinery and equipment and other assets.

[(1)] 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 cash flows from operating activities, proceeds on disposition of drilling equipment, and the Corporation's credit facilities when required. Of the total capital expenditures in the 2022-year, $48.5 million was used to grow the Corporation's fleet of drilling equipment and the remaining $25 million was used to maintain capacity in the Corporation's fleet of drilling and other equipment and replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $27.5 million, the Corporation's net capital expenditures for the 2022-year were $46.1 million.

Capital Expenditures



In 2022, the Corporation's capital spending was the highest in its history, while its net debt remained minimal. The Corporation leveraged its strong financial position to proactively order materials and equipment to mitigate the impacts of supply chain challenges and inflation. The 2022 capital expenditures were primarily directed towards expanding the Corporation's fleet of high-performance technologies, including its Atlas motors, Velocity systems, and PowerDrive Orbit RSS tools, to address the growing demand as robust commodity prices and growing industry activity continued.

Investments

No new investments were made in 2022. In 2021, the Corporation made a strategic investment by acquiring a minor equity position in DEEP Earth Energy Production Corp. ("DEEP"), a geothermal power developer. The investment in DEEP provides a potential opportunity for the Corporation to diversify its business to include renewable energy projects, provide drilling expertise to the project and increase the focus on long term sustainable growth.

Financing Activities

For the year ended December 31, 2022, net cash generated from financing activities was $2.7 million as compared to $22.7 million used in financing activities in 2021. In the 2022-year:

- dividends of $15.1 million were paid to shareholders;
- 626,400 common shares were purchased by an independent trustee in the open market for $4.1 million and held in trust for the use of potential future settlements of restricted awards granted under the Corporation's RAP;
- payments of $3.3 million were made towards lease liabilities;
- 1,266,038 common shares were issued from treasury for proceeds of $2.5 million upon the exercise of share options; and
- $22.7 million net in drawings were taken against the Corporation's syndicated credit facility.

Capital Resources

As of December 31, 2022, the Corporation had CAD $22.7 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $18.2 million. As at December 31, 2022, the Corporation had CAD $42.3 million and USD $15 million available from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2025.

As at December 31, 2022, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at December 31, 2022**
Debt to covenant EBITDA[i]	<3.0x	**0.27**
Interest coverage ratio[i]	>3.0x	**62.40**

[i] Definitions for these terms are included in the credit agreement filed on SEDAR

Under the syndicated credit agreement, in any given year, the Corporation's distributions (as defined therein) cannot exceed its distributable cash flows as defined in the Corporation's syndicated credit agreement. Distributions include, without limitation, dividends declared and paid, as well as cash used for common shares purchased by the independent trustee in the open market and held in trust for potential settlement of outstanding RAs. For the year ended December 31, 2022, the Corporation's distributions were 29 percent of its distributable cash flows.

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, proceeds on disposition of drilling equipment, debt and equity. In order to continue the advantageous strategy of placing advanced orders in a robust industry environment and continue to mitigate the supply chain issues expected to continue into 2023, the Board has approved a 2023 capital expenditure program of $61.5 million. Of the 2023 capital expenditures, $19.7 million 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, and $41.8 million is expected to be allocated to growth capital. 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 and financial market volatility persists in 2023, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at December 31, 2022, the Corporation has commitments to purchase drilling and other equipment for $43.3 million. Delivery is expected to occur within the first half of 2023.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at December 31, 2022 and 2021.

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 not yet in use;
- 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, environmental regulations 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 International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters.

The direct or indirect costs of compliance with greenhouse gas-related regulations and ESG directives may have an adverse effect on the Corporation's and its customer's business, financial condition, results of operations and prospects; however, at

this time these costs have not yet been quantified. Significant estimates and judgment currently made by management which could be significantly impacted by climate and climate-related matters include:

- recoverability of asset carrying values;
- useful life of assets; and,
- cash flow projections for purpose of impairment tests.

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

The consolidated annual financial statements for the year ended December 31, 2022 have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2021,

Financial Instruments

Credit Risk

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, 2022, one customer comprised 19 percent of the total revenue (2021 - 27 percent of revenue). The customer's revenue is reported within the US operating segment.

As at December 31, 2022, the aging of trade and other receivables that were not impaired was as follows:

(Stated in thousands of dollars)		2022
Neither past due nor impaired	$	81,086
Past due 1-30 days		30,344
Past due 31-60 days		10,397
Past due 61-90 days		1,699
Past due over 90 days		2,310
	$	125,836

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 2 percent or approximately $2.3 million of total receivables on the statement of financial position at December 31, 2022. 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, 2022 (2021 - $0.3 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, 2022:

(Stated in thousands of dollars)	2023	2024	2025	2026	2027 and after
Drilling and other equipment purchase commitments	43,256	-	-	-	-
Trade and other payables	104,689	-	-	-	-
Other non-current liabilities	-	3,740	722	-	-
Dividends payable	7,636	-	-	-	-
Bank loan interest and principal [(i)]	1,082	1,031	23,713	-	-
Lease payments [(ii)]	6,480	5,920	5,504	5,397	13,986
	163,143	10,691	29,939	5,397	13,986

[(i)] Bank loan interest has been estimated using interest rates in effect at December 31, 2022.
[(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 cash equivalents and trade and other receivables are designated as non-derivative financial assets measured at amortized cost. The Corporation's carrying values of these items, excluding loans and borrowings, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings bears interest at a floating market rate indicative of current spreads and accordingly the fair value approximate the carrying value.

Equity investments in a company are designated as non-derivative financial assets measured at Fair Value Through Other Comprehensive Income 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 $142 thousand for the year ended December 31, 2022.

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, 2022, foreign currency translation gains of $8.8 million (2021 – $0.1 million loss) that resulted from fluctuations in the CAD-USD exchange rates was recognized in other comprehensive income and $10.6 million of foreign currency translation losses was reclassified from other income to net earnings upon sale of the Russia operations. For the year ended December 31, 2022, foreign exchange losses of $0.3 million (2021 - $0.1 million loss) were recognized as part of earnings from continuing operations. 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:

As at December 31, 2022	**CAD**	**USD**
Cash and cash equivalents	**-**	**1,444**
Trade and other receivables	**-**	**-**
Trade and other payables	**-**	**(2,141)**
Intercompany receivables	**1,235**	**-**
Statement of financial position exposure	**1,235**	**(697)**

As at December 31, 2021 (*re-stated*)	CAD	USD
Cash and cash equivalents	-	4,385
Trade and other receivables	-	-
Trade and other payables	-	(2,360)
Intercompany payables	(2,889)	-
Statement of financial position exposure	(2,889)	2,025

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

	Average Rate		December 31, Close Rate	
	2022	2021	**2022**	2021
USD	**1.3017**	1.2537	**1.3544**	1.2678

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.

Gain (Loss)		2022		2021
CAD (10% strengthening)	$	91	$	(246)
USD (10% strengthening)		(95)		248

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 are included in the Corporation's most recently filed AIF under the heading "*Risk Factors*", which is available under the Corporation's profile at www.sedar.com. Such risks include, but are not limited to:

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.

Inflation and Cost Management

The Corporation's operating costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices, and additional government intervention through stimulus spending or additional regulations. The Corporation's inability to manage costs could impact future capital expenditure plans and have a material adverse effect on its financial performance and cash flows.

Adverse Economic Conditions

The demand for energy, including crude 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 in the US, Europe, or Asia, there could be a significant adverse effect on global financial markets and commodity prices. In addition, hostilities in the Middle East, Ukraine, and South China Sea and the occurrence or threat of terrorist attacks in the US or other countries could adversely affect the global economy. Global or national health concerns, including the outbreak of pandemic or contagious diseases may adversely affect the Corporation by (i) reducing global economic activity thereby resulting in lower demand for crude oil and liquids and natural gas, and therefore demand for the Corporation's services, (ii) impairing its supply chain, for example, by limiting the manufacturing of materials or the supply of goods and services used in the Corporation's operations, and (iii) affecting the health of its workforce, rendering employees unable to work or travel. These and other factors disclosed elsewhere in this MD&A that affect the supply and demand for crude 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 widely in response to relatively minor changes in the supply of and demand for crude oil and liquids and natural gas, market uncertainty, and a variety of additional factors that are beyond the Corporation and its customers control. 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 Corporations capital plans and financial results are likely to be adversely affected. Significant or extended price declines could have a material adverse effect upon its financial condition, results of operations and cash flows of the Corporation.

Third Party Credit Risk

The Corporation is exposed to the credit risks of its customers that exist within the oil and natural gas exploration and development industry. 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 a customer's ability to satisfy their obligations to the Corporation and therefore could materially adversely effect the Corporation's business, financial condition, results of operations, receivable and prospects.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial, state and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability, and potentially increased capital expenditures and operating costs. Implementation of strategies for reducing greenhouse gases ("GHG") could have a material impact on the nature of oil and natural gas operations, including those of the Corporation and the Corporation's customers. Given the evolving nature of regulations related to climate change and the control of GHG and the possible resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Corporation and its operations and financial condition.

Climate Change

Global climate issues continue to attract public and scientific attention. Numerous reports, including reports from the Intergovernmental Panel on Climate Change, have engendered concern about the impacts of human activity, especially hydrocarbon combustion, on global climate issues. In turn, increasing public, government, and investor attention is being paid to global climate issues and to emissions of GHG. The majority of countries across the globe, including Canada and the US, have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In addition, during the course of the 2021 United Nations Climate Change Conference in Glasgow, Scotland, Canada's Prime Minister Justin Trudeau and US President Joe Biden made several pledges aimed at reducing their nation's GHG emissions and environmental impact. As discussed below, the Corporation faces both transition risks and physical risks associated with climate change and climate change policy and regulations.

Transition Risks

Foreign and domestic governments continue to evaluate and implement policy, legislation, and regulations focused on restricting emissions commonly referred to as GHG emissions and promoting adaptation to climate change and the transition to a low-carbon economy. It is not possible to predict what measures foreign and domestic governments may implement in this regard, nor is it possible to predict the requirements that such measures may impose or when such measures may be implemented. However, international multilateral agreements, the obligations adopted thereunder and legal challenges concerning the adequacy of climate-related policy brought against foreign and domestic governments may accelerate the implementation of these measures. Given the evolving nature of climate change policy and the control of GHG emissions and resulting requirements, including emission caps, carbon taxes and carbon pricing schemes implemented by varying levels of government, it is expected that current and future climate change regulations will have the effect of increasing the Corporation's operating expenses, and, in the long-term, potentially reducing the demand for oil, liquids, natural gas and related products, which may result in a decrease in the demand for the Corporation's services.

Given the perceived elevated long-term risks associated with policy development, regulatory changes, public and private legal challenges, or other market developments related to climate change, there have also been efforts in recent years affecting the investment community, including investment advisors, sovereign wealth funds, banks, public pension funds, universities and other institutional investors, promoting direct engagement and dialogue with companies in their portfolios on climate change action (including exercising their voting rights on matters relating to climate change) and increased capital allocation to investments in low-carbon assets and businesses while decreasing the carbon intensity of their portfolios through, among other measures, divestments of companies with high exposure to GHG-intensive operations and products. Certain stakeholders have also pressured insurance providers and commercial and investment banks to reduce or stop financing, and providing insurance coverage to oil and natural gas and related infrastructure businesses and projects. The impact of such efforts may adversely affect the Corporation's operations, the demand for and price of the Corporation's securities and may negatively impact the Corporation's cost of capital and access to the capital markets.

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social, governance and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators published for comment Proposed National Instrument 51-107 – Disclosure of Climate Related Matters, intended to introduce climate-related disclosure requirements for reporting issuers in Canada with limited exceptions. The Corporation is committed to transparent reporting of its environmental performance, among other topics discussed in its ESG and Sustainability Report, and considers standards such as the Sustainability Accounting Standards Board's documentation, and recommendations issued by the Task Force for Climate Related Financial Disclosures. If the Corporation is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, and raise capital may be adversely affected.

Physical Risks

Based on the Corporation's current understanding, the potential physical risks resulting from climate change are long-term in nature and associated with a high degree of uncertainty regarding timing, scope, and severity of potential impacts. Many experts believe global climate change could increase extreme variability in weather patterns such as increased frequency of severe weather, rising mean temperature and sea levels, and long-term changes in precipitation patterns. Extreme hot and cold weather, heavy snowfall, heavy rainfall, and wildfires may negatively impact Corporation's operations. Extreme weather also increases the risk of personnel injury as a result of dangerous working conditions.

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, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of hydrocarbons 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.

Reliance on a Skilled Workforce and Key Personnel

The success of the Corporation will be dependent upon the recruitment and retention of a skilled workforce and key personnel. Losing the services of key personnel, or a substantial portion of its workforce as a whole, could result in 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 effect. The contributions of the existing management team and other key personnel to the immediate and near-term operations of the Corporation are likely to be of central importance. 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.

Availability 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. The ability of the Corporation to compete and expand its business is dependent upon it having access to certain industry-leading equipment and specialized components at a reasonable cost, as well as upon its ability to develop or acquire new competitive technology. 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. 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 available at acceptable cost. If such equipment is not

available, and is 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.

Competition

The Corporation's major competitors are principally large multinational companies with significantly greater resources available for marketing and R&D programs. The Corporation also competes with a number of other small and medium sized companies. Like the Corporation, these companies have certain competitive advantages, such as low overhead costs and specialized regional strengths. The Corporation's ability to generate revenue depends on its ability to successfully compete, continue to obtain contracts and to perform services within projected times and costs. 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.

Oil and Natural Gas Industry Risk & Insurance

PHX Energy's operations are subject to the risks normally incident 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, leaks of sour natural gas, 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 and 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, such as all risk property insurance covering property, contractors equipment, motor truck cargo, fire, limited first party pollution clean-up and limited first party blow-out and cratering; marine cargo insurance; commercial general liability insurance covering third party bodily injury and property damage including sudden and accidental pollution coverage and underground resources and equipment; and automobile insurance. 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 costs could lead the Corporation to decide to reduce or possibly eliminate, coverage.

Seasonality

In general, the level of activity of the Canadian and certain parts of the US and international oilfield service industry is influenced by seasonable weather patterns. Wet weather and the spring thaw may make the ground unstable, which prevents, delays or makes operations more difficult. Consequently, municipalities and provincial or state transportation departments may enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Additionally, certain oil and natural gas producing areas, located where the ground consists of swampy terrain known as muskeg, are inaccessible except during winter months.

Political Uncertainty and Geopolitical Risks

The Corporation's results can 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 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.

Other government and political factors that could adversely affect the Corporation's financial results include increases in taxes or government royalty rates (including retroactive claims) and changes in trade policies and agreements. Further, the adoption of regulations mandating efficiency standards, and 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 and 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, the oil and natural gas industry has become an increasingly politically polarizing topic, which has resulted 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 and disrupt the Corporation's activities and those of its customers.

Impact of Pandemics - COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic, prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential. This resulted in a swift and significant reduction in economic activity in Canada, the US and internationally along with a sudden drop in demand for oil, liquids and natural gas. Since 2020, oil prices have largely recovered from their historic lows, but price support from future demand, particularly in China, remains uncertain as countries experience varying degrees of virus outbreak and newly emerging virus variants following efforts to re-open local economies and international borders. Volatile commodity prices resulting from reduced demand associated with the impact of pandemics, including COVID-19, has had, and may continue to have, a negative impact on the Corporation's operational results and financial condition. Low prices for oil, liquids and natural gas will reduce the Corporation's funds from operations, and impact the Corporation's level of capital investment and may result in the reduction in the demand for its services.

Foreign Operations

The Corporation will conduct a certain portion of its business in the US, and Albania. 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 an operations. Risks of foreign operations include, but are not necessarily limited to foreign currency exchange rate fluctuations, changes of laws affecting foreign ownership, government participation, taxation, royalties, duties, 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 sanctions and 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 Corporation has expanded its presence in the US 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 particularly 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 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, the renegotiation of trade agreements, and efforts to amend 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.

Changing Investor Sentiment

A number of factors, including the effects of the use of hydrocarbons on climate change, the impact of oil and natural gas operations on the environment, environmental damage relating to spills of petroleum products during production and transportation, Indigenous rights and gender balance, have affected certain investors' sentiments towards investing in the oil and natural gas industry and certain corporations generally. As a result of these concerns, some institutional, retail, and governmental investors have announced that they are no longer funding or investing in oil and natural gas industry assets or companies, or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust ESG policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, Management and employees of the Corporation. Failing to implement the policies and practices, as requested by institutional investors, may result in such investors reducing their investment in the Corporation, or not investing in Corporation at all. Any reduction in the investor base interested or willing to invest in the oil and natural gas industry and more specifically, the Corporation, may result in limiting the Corporation's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Corporation's securities even if the Corporation's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause a decrease in the value of the Corporation's assets which may result in an impairment charge.

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, operating costs, 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 return of capital strategy of the Corporation may change from time-to-time and, as a result, 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, 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.

Market Price

The trading price of the securities of issuers in the oil and natural gas industry is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices, and/or current perceptions of the oil and natural gas market. Similarly, the market price of the common shares of the Corporation could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which the common shares of the Corporation will trade cannot be accurately predicted.

Reputational Risk

The Corporation's business, financial condition, operations or prospects may be negatively impacted as a result of any negative public opinion toward the Corporation or as a result of any negative sentiment toward or in respect of Corporation's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Corporation operates as well as their opposition to certain oil and natural gas projects. Potential impacts of negative public opinion or reputational issues may include, with respect to both the Corporation and its customers which would indirectly affect the Corporation, the following: delays or interruptions in operations, legal or regulatory actions or challenges, blockades, increased regulatory oversight, reduced support for, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences and increased costs and/or cost overruns. Any environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could damage the reputation of the Corporation. The Corporation's reputation could be affected by actions and activities of other corporations operating in the oil and natural gas industry, over which the Corporation has no control. Opposition from special interest groups opposed to oil and natural gas development and the possibility of climate related litigation against hydrocarbons companies may indirectly harm the Corporation's reputation. *See "Risk Factors – Climate Change".*

Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, regulatory and legal risks, among others, must all be managed effectively to safeguard the Corporation's reputation. Damage to the Corporation's reputation could result in in negative investor sentiment towards the Corporation, which may result in limiting the Corporation's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Corporation's securities.

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. The ability of the Corporation to manage growth effectively when it occurs will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. If the Corporation is unable to deal with this growth, it may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Information Technology Systems, Cyber-Security and Social Media

The Corporation is 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 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. In addition, cyber phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If the Corporation becomes a victim to a cyber phishing attack it could result in a loss or theft of the Corporation's financial resources or critical data and information, or could result in a loss of control of the Corporation's technological infrastructure or financial resources. The Corporation's employees are often the targets of such cyber phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses and or other malware. These emails appear to be legitimate emails, but direct recipients to fake websites operated by the sender of the email or request recipients to send a password or other confidential information through email, or to download malware.

The Corporation maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and conducts regular cyber-security risk assessments (both internal and third-party) and training and education programs for its employees. The Corporation also employs encryption protection of its confidential information on all computers and other electronic devices. Despite PHX Energy's efforts to mitigate such cyber-phishing attacks through education and training, cyber-phishing 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 cyber-security 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, but may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Additionally, social media is increasingly used as a vehicle to carry out cyber phishing 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, despite its efforts, 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.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach 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 presently be quantified, 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 will 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.

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.sedar.com.

Disclosure Controls and Procedures

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

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, 2022.

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, 2022.

There were no changes in the Corporation's ICFR that occurred during the period 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

(In thousands of shares)	**As at February 28, 2023**
Common shares outstanding, excluding shares held in trust	50,982,999
Common shares held in trust [i]	5,738
Total common shares outstanding	50,988,737
Dilutive securities:	
Options	1,051,834
Corporation shares – diluted	52,040,571

[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 RAP

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,	**2022**	2021	2020
Revenue	**535,745**	339,946	233,734
Net earnings (loss)	**29,753**	22,725	(7,771)
Earnings (loss) per share - basic	**0.59**	0.46	(0.15)
Earnings (loss) per share - diluted	**0.58**	0.44	(0.15)
Earnings (loss) from continuing operations	**44,311**	23,318	(6,878)
Earnings (loss) from continuing operations per share – basic	**0.88**	0.47	(0.13)
Earnings (loss) from continuing operations per share – diluted	**0.87**	0.45	(0.13)
Dividends declared per share[1]	**0.40**	0.15	0.025
Loans and borrowings	**22,731**	-	-
Net Debt (Net Cash)[2]	**4,484**	(24,829)	(25,746)
Total assets	**375,224**	262,494	216,541

In 2022, the global economy continued to recover from COVID-19 and global energy demand and supply imbalance, partially caused by the Russian Ukraine war, strengthened commodity prices which aided the improvement in the North American rig counts. In this more favourable industry environment, the Corporation generated strong operational and financial results in 2022. The COVID-19 pandemic, which began in 2020 and lingered into 2021 negatively impacted global economies and caused disruption to energy demand, commodity pricing and global supply chains. In 2020, the North American industry experienced the worst downturn in its history with rig counts dropping to all-time lows. As vaccines became widely available in 2021, many governments started easing restrictions which led to the global economy beginning its path to recovery, however the supply chain disruption persisted through to 2022 and are anticipated to continue into 2023. The Corporation maintained its healthy financial position through the challenges of 2020, and as a result in 2021 and 2022 was able to take a proactive stance in an environment where businesses were facing historic inflationary pressures and supply chain issues. The Corporation focused its strategy on early acquisition of drilling equipment in order to take advantage of the rising demand for energy products while making an effort to avoid resource shortages. In 2021, the Corporation's net earnings and earnings from continuing operations increased to $22.7 million and $23.3 million, respectively, primarily driven by revenue growth of 45 percent from 2020 to 2021. In 2022, net earnings and earnings from continuing operations increased to $29.8 million and $44.3 million, respectively, driven by a 58 percent increase in revenue. As a result of the Corporation's ability to leverage its

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[1] 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.

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

financial strength in the past 2 years to execute large capital expenditure programs, the Corporation's total assets progressively increased from $216.5 million at the end of 2020 to $375.2 million as at December 31, 2022. The increases in total assets were mainly driven by higher trade receivables that resulted from increased revenues, and greater inventories and drilling equipment to support operating activities and address the increased global demand for energy products. The Corporation ended the 2022-year with loans or borrowings outstanding of $22.7 million and a cash and cash equivalents balance of $18.2 million, resulting to a net debt of $4.5 million.

Summary of Quarterly Results – Continuing Operations

(Stated in thousands of dollars except per share amounts)

	Dec-22	Sep-22	Jun-22	Mar-22	Dec-21	Sept-21	Jun-21	Mar-21
Revenue	**157,758**	142,418	126,238	109,331	102,296	93,338	75,765	68,547
Earnings (loss)	**20,333**	13,475	12,818	(2,315)	9,330	4,206	4,447	5,334
Earnings (loss) per share – basic	**0.40**	0.27	0.25	(0.04)	0.19	0.09	0.08	0.11
Earnings (loss) per share – diluted	**0.39**	0.27	0.25	(0.04)	0.18	0.08	0.08	0.11
Dividends paid	**5,078**	3,797	3,791	2,482	2,505	1,260	1,260	1,266
Cash and cash equivalents	**18,247**	27,024	17,971	11,284	24,829	24,917	21,026	23,468
Loans and borrowings	**22,731**	24,000	20,108	3,749	-	-	-	-

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) Adjusted EBITDA from Continuing Operations

Adjusted EBITDA from continuing operations, 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 from continuing operations provides supplemental information to earnings from continuing operations 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 from continuing operations should not be construed as an alternative measure to earnings from continuing operations determined in accordance with GAAP. PHX Energy's method of calculating adjusted

EBITDA from continuing operations may differ from that of other organizations and, accordingly, its adjusted EBITDA from continuing operations may not be comparable to that of other companies.

The following is a reconciliation of earnings from continuing operations to adjusted EBITDA:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Earnings from continuing operations:	**20,333**	9,330	**44,311**	23,318
Add:				
Depreciation and amortization drilling and other equipment	**8,876**	6,898	**32,119**	25,860
Depreciation and amortization right-of-use asset	**805**	837	**3,235**	3,336
Provision for (recovery of) income taxes	**2,657**	(511)	**9,042**	3,559
Finance expense	**487**	115	**1,360**	494
Finance expense lease liability	**525**	516	**2,032**	2,125
Equity-settled share-based payments	**58**	49	**451**	384
Unrealized foreign exchange loss	**133**	176	**169**	253
Severance	**-**	-	**-**	835
Adjusted EBITDA from continuing operations	**33,874**	17,410	**92,719**	60,164

b) Adjusted EBITDA from Continuing Operations Per Share - Diluted

Adjusted EBITDA from continuing 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 adjusted EBITDA from continuing operations per share - dilutive is based on the adjusted EBITDA from continuing operations as reported in the table above divided by the diluted number of shares outstanding as quantified in Note 11(b) in the Notes to the Consolidated Financial Statements.

c) Adjusted EBITDA from Continuing Operations as a Percentage of Revenue

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

d) Adjusted EBITDA from Continuing Operations Excluding Cash-settled Share-based Compensation Expense

Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense is calculated by adding cash-settled share-based compensation expense to adjusted EBITDA from continuing operations as described above.

The following is a reconciliation of earnings from continuing operations to adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Earnings from continuing operations:	**20,333**	9,330	**44,311**	23,318
Add:				
Depreciation and amortization drilling and other equipment	**8,876**	6,898	**32,119**	25,860
Depreciation and amortization right-of-use asset	**805**	837	**3,235**	3,336
Provision for (recovery of) income taxes	**2,657**	(511)	**9,042**	3,559
Finance expense	**487**	115	**1,360**	494
Finance expense lease liability	**525**	516	**2,032**	2,125
Equity-settled share-based payments	**58**	49	**451**	384
Unrealized foreign exchange loss	**133**	176	**169**	253
Severance	**-**	-	**-**	835
Cash-settled share-based compensation expense	**6,938**	2,972	**24,568**	12,889
Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense	**40,812**	20,382	**117,287**	73,053

e) Adjusted EBITDA from Continuing Operations Excluding Cash-settled Share-based Compensation Expense as a Percentage of Revenue

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

f) Gross Profit as a Percentage of Revenue Excluding Depreciation & Amortization and Government Grants

Gross profit as a percentage of revenue excluding depreciation & amortization and government grants is defined as the Corporation's gross profit excluding depreciation and amortization and government grants 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, government grants and gross profit to gross profit as a percentage of revenue excluding depreciation and amortization and government grants:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Revenue	**157,758**	102,296	**535,745**	339,946
Direct costs	**121,906**	82,138	**426,107**	270,637
Gross profit	**35,852**	20,158	**109,638**	69,309
Depreciation & amortization drilling and other equipment (included in direct costs)	**8,876**	6,898	**32,119**	25,860
Depreciation & amortization right-of-use asset (included in direct costs)	**805**	837	**3,235**	3,336
Government grants (included in direct costs)	**(8)**	-	**(83)**	(6,488)
	45,525	27,893	**144,909**	92,017
Gross profit as a percentage of revenue excluding depreciation & amortization and government grants	**29%**	27%	**27%**	27%

g) 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,	
	2022	2021	**2022**	2021
SG&A Costs	**19,365**	13,044	**68,901**	44,982
Deduct:				
Share-based compensation (included in SG&A)	**6,996**	3,021	**25,019**	13,273
	12,369	10,023	**43,882**	31,709
Revenue	**157,758**	102,296	**535,745**	339,946
SG&A costs excluding share-based compensation as a percentage of revenue	**8%**	10%	**8%**	9%

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,	
	2022	2021	**2022**	2021
Cash flows from operating activities	**8,970**	12,969	**38,338**	45,548
Add (deduct):				
Changes in non-cash working capital	**15,326**	150	**31,503**	3,451
Interest paid	**775**	556	**2,873**	2,321
Income taxes paid (received)	**(3)**	97	**(232)**	(109)
Funds from operations	**25,068**	13,772	**72,482**	51,211

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,	
	2022	2021	**2022**	2021
Cash flows from operating activities	**8,970**	12,969	**38,338**	45,548
Add (deduct):				
Changes in non-cash working capital	**15,326**	150	**31,503**	3,451
Interest paid	**774**	556	**2,873**	2,321
Income taxes paid (received)	**(3)**	97	**(232)**	(109)
Cash payment on leases	**(1,330)**	(1,372)	**(5,303)**	(5,420)
	23,737	12,399	**67,179**	45,791
Proceeds on disposition of drilling equipment	**12,005**	5,236	**27,459**	12,340
Maintenance capital expenditures from downhole equipment losses and asset retirements	**(6,222)**	(3,940)	**(25,068)**	(12,203)
Net proceeds	**5,783**	1,296	**2,391**	137
Growth capital expenditures	**(15,252)**	(7,182)	**(48,457)**	(23,078)
Excess cash flow	**14,268**	6,513	**21,113**	22,850

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)

	Years ended December 31,	
	2022	2021
Current assets	**210,227**	141,159
Deduct:		
Current liabilities	**(115,888)**	(83,286)
Working capital	**94,339**	57,873

d) Net Debt (Net Cash)

Net debt is defined as the Corporation's operating facility and loans and borrowings less cash and cash equivalents. 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 operating facility, loans and borrowings, and cash and cash equivalents to net debt:

(Stated in thousands of dollars)

	Years ended December 31,	
	2022	2021
Loans and borrowings	**22,731**	-
Deduct:		
Cash and cash equivalents	**(18,247)**	(24,829)
Net debt (Net cash)	**4,484**	(24,829)

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 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 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,	
	2022	2021	**2022**	2021
Additions to drilling and other equipment (Capital expenditures)	**21,474**	11,122	**73,525**	35,281
Deduct:				
Proceeds on disposition of drilling equipment	**(12,005)**	(5,236)	**(27,459)**	(12,340)
Net capital expenditures	**9,469**	5,886	**46,066**	22,941

Supplementary Financial Measures

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

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

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

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

"Effective tax rate" is comprised of provision for or recovery of income tax, as determined in accordance with IFRS, divided by earnings from continuing operations 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 11(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 6(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" 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 anticipated increased demand for the Corporation's services and high-performance technologies in North America;
- The resulting increased costs and component shortages with certain suppliers are expected to have less of an impact in 2023 and the Corporation will continue to leverage its strong market position and implement strategies to mitigate the impacts to its operations;
- the Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through the ROCS Program;
- PHX Energy now anticipates spending $61.5 million, previously announced $50 million, in capital expenditures during 2023. Of the total expenditures, $41.8 million is expected to be allocated to growth capital and the remaining $19.7 million is expected to be allocated towards maintenance of the existing fleet of drilling and other equipment and replacement of equipment lost downhole during drilling operations. The maintenance capital amount could increase throughout the year should there be more downhole equipment losses then forecasted. These increases would likely be funded by proceeds on disposition of drilling equipment;
- As at December 31, 2022, the Corporation has commitments to purchase drilling and other equipment for $43.3 million. Delivery is expected to occur within the first half of 2023;
- Anticipated continuation of the Corporation's quarterly dividend program and the amounts of dividends;
- In 2021, the Corporation made a strategic investment by acquiring a minor equity position in DEEP, a geothermal power developer. The investment in DEEP provides a potential opportunity for the Corporation to diversify its

business to include renewable energy projects, provide drilling expertise to the project and increase the focus on long term sustainable growth; and

- Planned expenditures are expected to be financed primarily by funds from operations and proceeds on the disposition of drilling equipment. However, if a sustained period of market and commodity price uncertainty and financial market volatility persists in 2023, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, in which event the proceeds from borrowing may be required to fund operations, and the expenditure level would be reduced accordingly.

The above are stated under the headings: "Year End Highlights", "Overall Performance", "Return of Capital Strategy", "Capital Spending", "Supply Chain Disruption and Inflation", "Liquidity", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Return of Capital Strategy", "Cash Flow and Dividends", "Investments", "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 2023 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation, anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the impact of pandemics and the Russian-Ukrainian war 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 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, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with the Canadian Securities Regulatory Authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation's website.

The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PHX Energy Services Corp.

Opinion

We have audited the consolidated financial statements of PHX Energy Services Corp. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of comprehensive earnings for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Assessment of indicators of impairment for the Canadian and United States ("US") cash generating units ("CGU" or "CGUs")

Description of the matter

We draw attention to Note 2(d), Note 3(h)(ii) and Note 6(a) to the financial statements. The carrying amounts of the Entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. The assessment of indicators of impairment is based on management's judgment of whether there are internal and external factors that would indicate that a cash generating unit and specifically the non-financial assets within the CGU, are impaired. These factors include revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") forecasts, expected industry activity levels, commodity price developments and market capitalization. As at December 31, 2022, management determined no indicators of impairment existed for the Canadian and US CGUs.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment for the Canadian and US CGUs as a key audit matter. Significant auditor judgement was required in evaluating the internal and external factors included in the Entity's indicators of impairment analysis.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's 2022 actual revenues and EBITDA for the Canadian and US CGUs to the 2022 budgeted revenues and EBITDA to assess the Entity's ability to accurately forecast.

We evaluated the Entity's assessment of impairment indicators by:

- comparing internal and external factors, including expected industry activity levels and commodity price developments analyzed by the Entity to relevant external market data or internal source documents
- comparing the Entity's budgeted 2023 revenue and EBITDA for the Canadian and US CGUs to 2022 actual revenue and EBITDA and considering the impact of changes in conditions and events affecting the Canadian and US CGUs
- evaluating changes in market capitalization over the year and its impact on the Entity's impairment indicator analysis.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Report"

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Richard John Mussenden.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
February 28, 2023

Consolidated Statements of Financial Position

	December 31, 2022	(Adjusted – Note 12c) December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,247,376	$ 24,828,830
Trade and other receivables (Note 18a)	125,836,273	76,478,093
Inventories (Note 5)	63,119,489	36,691,141
Prepaid expenses	3,024,166	2,814,272
Current tax assets	-	346,554
Total current assets	210,227,304	141,158,890
Non-current assets:		
Drilling and other long-term assets (Note 6)	115,945,060	76,363,001
Right-of-use asset (Note 20)	29,336,163	25,708,177
Intangible assets (Note 7)	15,668,180	16,137,024
Investments (Note 8)	3,000,500	3,000,500
Other long-term assets	993,112	-
Deferred tax assets (Note 10)	53,869	126,133
Total non-current assets	164,996,884	121,334,835
Total assets	$ 375,224,188	$ 262,493,725
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	$ 104,688,901	$ 77,571,887
Dividends payable (Note 11d)	7,636,085	2,482,060
Lease liability (Note 20)	2,906,708	3,232,503
Current tax liabilities	656,499	-
Total current liabilities	115,888,193	83,286,450
Non-current liabilities:		
Lease liability (Note 20)	36,768,003	32,638,819
Loans and borrowings (Note 9)	22,731,389	-
Deferred tax liability (Note 10)	18,496,619	9,346,426
Other (Note 12c)	4,461,531	2,789,786
Total non-current liabilities	82,457,542	44,775,031
Equity:		
Share capital (Note 11a)	251,344,809	235,463,414
Contributed surplus	7,044,317	9,462,091
Deficit	(112,120,484)	(121,721,790)
Accumulated other comprehensive income	30,609,811	11,228,529
Total equity	176,878,453	134,432,244
Total liabilities and equity	$ 375,224,188	$ 262,493,725

See accompanying notes to consolidated financial statements.

Commitments (Note 6c)

Approved by the Board of Directors

(Signed) John Hooks

John Hooks – Chairperson of the Board

(Signed) Terry Freeman

Terry Freeman – Chair of the Audit Committee

Consolidated Statements of Comprehensive Earnings

Years ended December 31,	2022	(Re-presented – Note 4) 2021
Revenue (Note 16)	$ 535,744,879	$ 339,946,067
Direct costs (Note 13)	426,106,571	270,636,934
Gross profit	109,638,308	69,309,133
Expenses:		
Selling, general and administrative expenses (Note 13)	68,901,204	44,982,155
Research and development expenses (Note 13)	3,722,513	2,773,559
Finance expense	1,360,429	494,287
Finance expense lease liability (Note 20)	2,031,549	2,125,017
Other income (Note 14)	(19,730,307)	(7,942,246)
	56,285,388	42,432,772
Earnings from continuing operations before income taxes	53,352,920	26,876,361
Provision for (recovery of) income taxes (Note 15)		
Current	759,822	(235,944)
Deferred	8,281,708	3,794,631
	9,041,530	3,558,687
Earnings from continuing operations	44,311,390	23,317,674
Discontinued operations (Note 4)		
Net loss from discontinued operations, net of taxes	(14,558,032)	(593,039)
Net earnings	29,753,358	22,724,635
Other comprehensive income (loss)		
Foreign currency translation	8,820,328	(68,458)
Reclassification of foreign currency translation loss on disposition (Note 4)	10,560,954	-
Total comprehensive earnings	$ 49,134,640	$ 22,656,177
Earnings per share – basic (Note 11c)		
Continuing operations	$ 0.88	$ 0.47
Discontinued operations	$ (0.29)	$ (0.01)
Net earnings	$ 0.59	$ 0.46
Earnings per share – diluted (Note 11c)		
Continuing operations	$ 0.87	$ 0.45
Discontinued operations	$ (0.29)	$ (0.01)
Net earnings	$ 0.58	$ 0.44

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Year Ended December 31, 2022	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2021	47,978,662	$ 235,463,414	$ 9,462,091	$ 11,228,529	$ (121,721,790)	$ 134,432,244
Issuance of share capital on exercise of options (Note 11a)	1,266,038	2,503,685	-	-	-	2,503,685
Issuance of share capital from trust on settlement of retention awards (Note 11a)	2,277,875	14,618,748	-	-	-	14,618,748
Common shares purchased and held in trust (Note 11a)	(626,400)	(4,110,000)	-	-	-	(4,110,000)
Share-based payments	-	-	451,188	-	-	451,188
Fair value of options exercised	-	2,868,962	(2,868,962)	-	-	-
Net earnings	-	-	-	-	29,753,358	29,753,358
Foreign currency translation, net of tax	-	-	-	8,820,328	-	8,820,328
Reclassification of foreign currency translation loss on disposition (Note 4)	-	-	-	10,560,954	-	10,560,954
Dividends	-	-	-	-	(20,152,052)	(20,152,052)
Balance, December 31, 2022	50,896,175	$ 251,344,809	$ 7,044,317	$ 30,609,811	$ (112,120,484)	$ 176,878,453

Year Ended December 31, 2021	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2020	50,625,920	$ 247,543,263	$ 10,131,786	$ 11,296,987	$ (136,939,398)	$ 132,032,638
Issuance of share capital on exercise of options (Note 11a)	976,067	2,346,453	-	-	-	2,346,453
Common shares repurchased and cancelled (Note 11a)	(1,960,788)	(7,979,601)	-	-	-	(7,979,601)
Common shares purchased and held in trust (Note 11a)	(1,662,537)	(7,500,000)	-	-	-	(7,500,000)
Share-based payments	-	-	383,604	-	-	383,604
Fair value of options exercised	-	1,053,299	(1,053,299)	-	-	-
Net earnings	-	-	-	-	22,724,635	22,724,635
Foreign currency translation, net of tax	-	-	-	(68,458)	-	(68,458)
Dividends	-	-	-	-	(7,507,027)	(7,507,027)
Balance, December 31, 2021	47,978,662	$ 235,463,414	$ 9,462,091	$ 11,228,529	$ (121,721,790)	$ 134,432,244

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31,	2022	(Re-presented – Note 4) 2021
Cash flows from operating activities:		
Earnings from continuing operations	$ 44,311,390	$ 23,317,674
Adjustments for:		
Depreciation and amortization (Note 13)	32,118,506	25,860,400
Depreciation and amortization right-of-use asset (Note 13)	3,235,024	3,336,282
Provision for income taxes (Note 15)	9,041,530	3,558,687
Unrealized foreign exchange loss	169,308	253,071
Net gain on disposition of drilling equipment (Note 14)	(19,491,747)	(7,745,851)
Equity-settled share-based payments (Note 12a)	451,188	383,604
Finance expense	1,360,429	494,287
Recovery of bad debts (Note 14)	(13,213)	(280,612)
Provision for inventory obsolescence (Note 5 and Note 13)	1,299,155	2,033,144
Interest paid	(841,288)	(195,672)
Interest paid on lease liabilities	(2,031,549)	(2,125,017)
Income taxes received	231,812	109,455
Change in non-cash working capital (Note 17)	(31,502,843)	(3,451,337)
Continuing operations	38,337,702	45,548,115
Discontinued operations (Note 4)	(1,254,859)	(95,412)
Net cash from operating activities	37,082,843	45,452,703
Cash flows from investing activities:		
Proceeds on disposition of drilling equipment	27,458,977	12,340,237
Acquisition of drilling and other equipment (Note 6b)	(73,525,079)	(35,281,303)
Acquisition of intangible assets (Note 7)	(1,261,372)	(1,852,731)
Acquisition of equity investment (Note 8)	-	(3,000,500)
Change in non-cash working capital (Note 17)	7,349	4,164,905
Continuing operations	(47,320,125)	(23,629,392)
Discontinued operations (Note 4)	(68,068)	163
Net cash used in investing activities	(47,388,193)	(23,629,229)
Cash flows from financing activities:		
Proceeds on loans and borrowings	22,731,389	-
Proceeds from exercise of options	2,503,685	2,346,453
Dividends paid to shareholders	(15,147,530)	(6,290,612)
Purchase of shares held in trust (Note 11a)	(4,110,000)	(7,500,000)
Payments of lease liability	(3,271,452)	(3,294,608)
Repurchase of shares under the NCIB (Note 11)	-	(7,979,601)
Continuing operations	2,706,092	(22,718,368)
Discontinued operations	-	-
Net cash from (used in) financing activities	2,706,092	(22,718,368)
Net decrease in cash and cash equivalents	(7,599,258)	(894,894)
Cash and cash equivalents, beginning of year	24,828,830	25,745,911
Effect of movements in exchange rates on cash held	1,017,804	(22,187)
Cash and cash equivalents, end of year	$ 18,247,376	$ 24,828,830

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

In Canadian dollars

1. Reporting Entity

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

The Corporation, through its subsidiaries (see Note 22), provides horizontal and directional drilling services to oil and natural gas exploration and development companies in Canada, United States, Albania and the Middle East regions. The Middle East region operates through an arrangement with National Energy Services Reunited Corp. The Corporation also develops and manufactures technologies that are made available for internal operational use.

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation has presented its operations in Russia as a discontinued operation (see Note 4).

2. Basis of Preparation

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Details of the Corporation's accounting policies, including changes during the year, are included in Note 3.

The consolidated financial statements were authorized for issue by the Board of Directors (the "Board") on February 28, 2023.

b) Basis of Measurement

The consolidated financial statements have been prepared on a going concern basis using the historical cost basis except for liabilities for cash-settled share-based payment arrangements and investments, which are measured at fair value.

c) Functional and Presentation Currency

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

d) Use of Estimates

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 not yet in use;
- 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.

i. Climate Change and Environmental, Social, and Governance ("ESG")

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 International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters.

The direct or indirect costs of compliance with greenhouse gas-related regulations and ESG directives may have an adverse effect on the Corporation's and its customer's business, financial condition, results of operations and

prospects; however, at this time these costs have not yet been quantified. Significant estimates and judgment currently made by management which could be significantly impacted by climate and climate-related matters include:

- Recoverability of asset carrying values;
- Useful life of assets; and,
- Cash flow projections for purpose of impairment tests.

e) Critical Judgments

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 ("EBITDA") 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.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of Consolidation

i. Business Combinations

Business acquisitions are accounted for using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred. In determining whether a particular set of activities and assets is a business, the Corporation assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Corporation has an option to apply a "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is measured at fair value and excludes amounts related to the settlement of pre-existing relationships. In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

ii. Subsidiaries

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

iii. Loss of Control

When the Corporation loses control over a subsidiary it derecognizes the assets and liabilities of the subsidiary, and any other related components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iv. Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Corporation's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

v. Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation's entities at exchange rates at the dates of the transactions. The methods used to account for assets and liabilities relating to foreign currency transactions entered into by the Corporation's entities, and to measure the foreign exchange risk arising on such transactions, depend upon whether the asset or liability in question is classified as a monetary or non-monetary item.

Receivables, liabilities and other monetary assets denominated in foreign currencies at the reporting date are translated at the functional currency spot exchange rate at the statement of financial position date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date or the rate

at the statement of financial position date are recognized in the statement of comprehensive earnings as other income or expense.

Drilling and other equipment, inventories and other non-monetary items purchased in foreign currencies and that are measured on the basis of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

vi. Foreign Operations

When entities, which prepare their financial statements in a functional currency other than Canadian dollars, are recognized in the consolidated financial statements, the income and expenses are translated at the monthly average exchange rates. The assets and liabilities of foreign operations are translated to Canadian dollars at the rate of exchange prevailing at the statement of financial position date.

Foreign currency differences are recognized in other comprehensive earnings in the accumulated other comprehensive income account. The exchange differences arising on the translation to the Corporation's presentation currency are recognized directly in the cumulative translation reserve as a separate component of equity. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive earnings, and are presented within equity in accumulated other comprehensive income.

b) Financial Instruments

i. Financial Assets at Fair Value Through Profit and Loss ("FVTPL")

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

ii. Financial Assets at Fair Value Through Other Comprehensive Income ("FVOCI")

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

iii. Financial Assets at Amortized Cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

iv. Non-derivative Financial Assets

The carrying amount of the Corporation's financial assets includes cash and cash equivalents, trade and other receivables, and investments. A lifetime expected credit loss ("ECL") is recognized on financial assets when there is objective evidence of a significant increase in credit risk as a result of one or more events that occurred after the initial recognition of the asset.

The Corporation's short-term deposits with original maturities of three months or less are considered to be cash equivalents and are recorded at cost, which approximates fair value.

The Corporation initially recognizes trade and other receivables on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets at amortized cost consist of cash and cash equivalents and trade and other receivables. Trade and other receivables are recorded at its original invoice value less any amounts estimated to be uncollectible plus any directly attributable transaction costs.

Financial assets at FVOCI consist of equity investments in a company (see Note 8). On initial recognition of an equity investment that is not held-for-trading, the Corporation may irrevocably elect to present subsequent changes in the investment's fair value in OCI. There is no subsequent reclassification of fair value changes to earnings following the derecognition of the investment. Interest and dividends that reflect a return on investment continue to be recognized in net earnings. This election is made on an investment-by-investment basis.

v. Non-derivative Financial Liabilities

Financial liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest rate method. Transaction costs related to the issuance of any long-term debt are netted against the carrying value of the associated long-term debt and amortized as part of financing costs over the life of the debt using the effective interest rate method. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Corporation has the following non-derivative financial liabilities: trade and other payables, dividends payable, and loans and borrowings.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

c) Share Capital

i. Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

ii. Repurchase and Reissue of Common Shares (Treasury Shares)

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within contributed surplus.

d) Drilling and Other Equipment

i. Recognition and Measurement

Items of drilling and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost is comprised of the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. Where material, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to be ready for use) are included in capitalized cost. Borrowing costs have not been material to the cost of assets for any period presented. The cost of self-constructed assets includes the cost of materials and any other costs directly attributable to bringing the assets to a working condition for their intended use. No borrowing costs were capitalized in 2022 and 2021.

Drilling and other equipment also includes parts and raw materials awaiting assembly. These assets are recorded at cost and no depreciation is taken until the asset is completed and available for intended use.

When parts of an item of drilling and other equipment have different useful lives, they are accounted for as separate items (major components) of drilling and other equipment.

Gains and losses on disposal of an item of drilling and other equipment are determined by comparing the proceeds from disposal with the carrying amount of drilling and other equipment, and are recognized net within other income in the Corporation's profit or loss.

ii. Subsequent Costs

The cost of replacing a part of an item of drilling and other equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of drilling and other equipment (repair and maintenance) are recognized in the Corporation's profit or loss as incurred.

iii. Depreciation

Depreciation expense is recognized in profit or loss on a straight-line basis over the estimated useful lives of drilling and other equipment and is calculated using the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

The estimated useful lives for the current period are as follows:

Directional drilling equipment	2 to 8 years straight-line
Office and computer equipment	3 to 5 years straight-line
Machinery and equipment	5 years straight-line
Vehicles	5 years straight-line

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

e) Intangible Assets and Goodwill

i. Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

ii. Research and Development Costs

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved product and process. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs. Other development expenditures are recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

iii. Other Intangible Assets

Other intangible assets that are acquired by the Corporation and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

Other intangible assets include licenses which give the Corporation rights to use in any manner certain equipment acquired from a third party. These licenses are transferrable to other equipment should it be lost downhole, retired, or sold. The useful life of these licenses is estimated to be the same as the estimated useful life of the associated technologies.

iv. Subsequent Expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill, are recognized in profit or loss as incurred.

v. Amortization

Amortization is calculated to write-off the costs of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognized in profit or loss.

The estimated useful life is as follows:

Licenses	10 to 15 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

f) Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, and deferred tax assets, which continue to be measured in accordance with the Corporation's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held for sale, intangible assets and property, plant, and equipment are no longer depreciated.

On reclassification from held for sale to held for use, a non-current asset is remeasured at the lower of its recoverable amount and the carrying amount that would have been recognized had the asset never been classified as held for sale. As such, within 2021 upon reclassification of the long-lived assets of Phoenix TSR from held for sale to held for use, the Corporation recognized a loss on remeasurement of $1.2 million (see Note 4).

g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out method, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

h) Impairment

i. Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Corporation considers evidence of impairment for receivables at a specific asset level. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Corporation's historical experience, informed credit assessment, and forward-looking information. The Corporation has elected to measure loss allowances for trade and other receivables at an amount equal to the ECL over the expected life of a financial instrument.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and are reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii. Non-Financial Assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This

allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the non-financial assets within the CGU are considered impaired and its carrying amount is reduced to its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

iii. Employee Benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of Retention Awards, which may be settled in cash or equity, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees

unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

i) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

j) Revenue

Revenue is recognized when a client obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. Revenue is measured based on the consideration specified in the contract with a client and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control over a product or service to a client. The Corporation's services are sold based upon bid acceptance or contracts with clients that includes fixed or determinable prices based upon daily, hourly, or job rates.

The Corporation primarily generates drilling services revenue whereby the client is charged a flat day rate for each day the rig requires directional drilling services. The day rate includes personnel assistance as well as use of equipment. The Corporation recognizes revenue daily based on the daily drilling rate. The Corporation's performance obligation is the bundling of its services relating to directional drilling activities, which distinctly benefit the client each day of active drilling. The Corporation recognizes this benefit to revenue daily, over a period of time, as services have been provided. An invoice is sent to the client upon completion of the well, also revenues are accrued based on daily services provided at period end. Clients are expected to pay the Corporation 30 days after the invoice has been received.

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

k) Government Grants

Government grants received are recognized when there is reasonable assurance that the Corporation will comply with the relevant conditions and the grant will be received. Grants are recognized in profit or loss on a systematic basis as the entity recognizes as expenses the costs that the grants are intended to compensate. A grant that is compensation for expenses or losses already incurred, or for which there are no future related costs, is recognized in profit or loss in the period in which it becomes receivable.

For the year ended December 31, 2022, the Corporation recognized government grants of $0.3 million relating to job and innovation grant programs. For the year ended December 31, 2021, the Corporation recognized government grants of $3.6 million relating to the Canadian Emergency Wage Subsidy and Canadian Emergency Rent Subsidy programs, and USD $4.1 million relating to the Coronavirus Aid, Relief, and Economic Security program.

l) Leases

i. Definition of a Lease

The Corporation determines whether an arrangement or an agreement contains a lease in accordance to IFRS 16 *Leases*. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

- The contract involves the use of an identified asset, which may be specifically or implicitly stated, and the identified asset should be physically distinct or represents substantially all of the capacity of the asset. If the supplier has the substantive right to substitute the asset throughout the term of the contract, then the asset is not identified;
- The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the contract; and
- The Corporation has the right to direct the use of the identified asset throughout the contract. The Corporation has this right to direct how and for what purpose the asset is used. In addition, the Corporation has the right to operate the asset without the lessor or supplier having the right to change those operation instructions, or the Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Corporation allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Corporation has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

ii. As a Lessee

The Corporation recognizes right-of-use assets and lease liabilities at the lease commencement date. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use assets are depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Corporation by the end of the lease term or the cost of the right-of-use asset reflects that the Corporation will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of drilling and other equipment.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Corporation's incremental borrowing rate. The Corporation determines its incremental borrowing rate by obtaining interest rates from external financing sources and adjusting to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liabilities comprise the following:

- Fixed payments, including in-substance fixed payments;
- Amounts expected to be payable under a residual value guarantee if applicable; and,
- The exercise price under a purchase option that the Corporation is reasonably certain to exercise, lease payments in an optional renewal period if the Corporation is reasonably certain to exercise and penalties for early termination of a lease unless the Corporation is reasonably certain not to terminate early.

The lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in discount rate or change in estimate and assumptions related to the leased asset. When a lease liability is remeasured a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation has elected to apply recognition exemptions to right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment), as well as for short-term leases or leases with terms less than twelve months or entered into on a month-to-month basis. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

iii. As a Lessor

The Corporation accounts for its interest in the head lease and the sub-lease separately. The Corporation assesses the lease classification of a sub-lease with reference to the right-of-use assets arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease then it is classifies the sub-lease an operating lease and lease payments received are recognized as operating income on a straight-line basis over the lease term.

m) Finance Income and Expense

Finance income is comprised of interest income on funds invested. Interest income is recognized as it accrues in the Corporation's profit or loss, using the effective interest method.

Finance expense comprises interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Corporation's profit or loss using the effective interest method.

n) Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The criteria for recognizing deferred tax assets arising from unused tax losses is the same as the criteria arising from temporary differences between the carrying amounts of asset and liabilities for tax purposes. However, the

Corporation under the circumstances of having unused tax losses due to a history of recent losses recognizes deferred tax assets to the extent there is convincing other evidence that sufficient taxable income will be available against the unused losses.

Tax exposures

In determining the amount of current and deferred tax, the Corporation takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Corporation to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

o) Earnings per Share

The Corporation presents basic and diluted earnings per share data for its ordinary shares. Basic per share amounts are calculated by dividing the earnings or loss attributable to ordinary shareholders of the Corporation by the weighted-average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted per share amounts are calculated by adjusting the earnings or loss attributable to ordinary shareholders and the weighted-average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options, retention awards, and performance awards granted to employees and directors.

p) Segment Reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by the Corporation's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Corporation's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire drilling and other equipment, and intangible assets other than goodwill.

q) Discontinued Operations

A discontinued operation is a component of the Corporation's business, the operations and cash flows of which can be clearly distinguished from the rest of the Corporation and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of the disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

i. Re-presentation of Comparatives

On June 30, 2022, the Corporation completed the sale of its Russian division. The transaction involved the sale of all shares of Phoenix TSR LLC ("Phenix TSR"), a legally wholly-owned subsidiary of PHX Energy that held the entire Russian drilling operations. Accordingly, certain comparative figures of the consolidated financial statements for the year ended December 31, 2021 have been re-presented to present operations of Phoenix TSR as a discontinued operation (Note 4).

4. Discontinued Operations

a) Impairment and Other Write-Offs of Russian Assets

In the first quarter of 2022, the Corporation determined the Russian operations to be in its own cash-generating unit ("CGU") due to a divergence in its overall risk profile from the rest of the International CGU. Concurrently, PHX Energy recognized:

- Impairment loss of approximately $0.4 million on drilling and other equipment owned by the Russian operations, Phoenix TSR;
- Write-offs of $0.6 million related to inventories owned by the Russian operations; and,
- Expected credit losses of $1 million related to certain trade receivables owned by Phoenix TSR.

b) Discontinued Operations and Loss on Disposition

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

		June 30, 2022
Consideration on sale of Phoenix TSR, satisfied in cash	$	404
Less net assets of Phoenix TSR comprised of working capital:		(3,496,576)
Loss on disposition of Phoenix TSR	$	(3,496,172)

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

	Year ended December 31,			
		2022		2021
Revenue	$	7,443,368	$	9,973,603
Expenses		(5,781,276)		(9,390,175)
		1,662,092		583,428
Reclassification of foreign currency translation loss on disposition of Phoenix TSR		(10,560,954)		-
Loss on disposition of Phoenix TSR		(3,496,172)		-
Impairment and other write-offs		(1,966,848)		-
Loss on remeasurement		-		(1,177,546)
Loss from discontinued operations		(14,361,882)		(594,118)
Income tax (recovery) from discontinued operations		196,150		(1,079)
Loss from discontinued operations, net of taxes	$	(14,558,032)	$	(593,039)

Included in the Corporation's other comprehensive income for the year-ended December 31, 2021 is $0.3 million of foreign currency translation gain relating to Russia's operations.

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

	Year ended December 31, 2022	2021
Net loss from discontinued operations, net of taxes	$ (14,558,032)	$ (593,039)
Addback (deduct):		
Depreciation and amortization	136,024	-
Provision for (recovery of) income taxes	196,150	(1,079)
Unrealized foreign exchange (gain) loss	(56,497)	15,914
Interest and taxes paid, net	(3,316)	(10,593)
Loss on disposition of drilling equipment	68,068	27,666
Finance expense	3,316	1,671
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	10,560,954	-
Impairment and other write-offs	1,966,848	-
Loss on remeasurement	-	1,177,546
Loss on disposition of Phoenix TSR	3,496,172	-
Change in non-cash working capital	(3,064,546)	(713,498)
Cash used in operating activities	$ (1,254,859)	$ (95,412)

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

5. Inventories

Inventories are mainly comprised of drilling and other equipment repair parts. In 2022, consumed repair parts, which are included in direct costs, amounted to $49.7 million (2021 - $40.6 million). For the year ended December 31, 2022, the Corporation recognized a provision for obsolete inventory of $1.3 million (2021 - $2 million).

6. Drilling and Other Long-Term Assets

a) Impairment Analysis

The Corporation is required to assess whether there are any external and internal indicators that exist at the end of each reporting period. As at December 31, 2022, management determined no indicators of impairment existed.

b) Acquisitions and Disposals

Assets with a carrying amount of $8 million (2021 - $4.6 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $19.5 million (2021 - $7.7 million), which is included in other income in the consolidated statement of comprehensive earnings.

(Stated in thousands of dollars)

	Directional Drilling Equipment	Machinery and Equipment	Office and Computer Equipment	Vehicles	Total
Cost					
At January 1, 2022	297,198	20,551	17,750	723	336,222
Additions	70,031	1,563	1,847	84	73,525
Disposals	(19,264)	-	(520)	(69)	(19,853)
Discontinued Operations	(18,546)	(2,790)	(174)	-	(21,510)
Effect of movement in exchange rate	17,058	1,473	574	623	19,728
At December 31, 2022	346,477	20,797	19,477	1,361	388,112
Accumulated Depreciation					
At January 1, 2022	225,757	18,034	15,654	414	259,859
Depreciation	28,232	1,023	722	146	30,123
Disposals	(11,310)	-	(520)	(56)	(11,886)
Discontinued Operations	(16,809)	(2,366)	(138)	-	(19,313)
Effect of movement in exchange rate	11,069	1,295	497	523	13,384
At December 31, 2022	236,939	17,986	16,215	1,027	272,167
Carrying amount at December 31, 2022	109,538	2,811	3,262	334	115,945

(Stated in thousands of dollars)

	Directional Drilling Equipment	Machinery and Equipment	Office and Computer Equipment	Vehicles	Total
Cost					
At January 1, 2021	282,542	19,830	17,147	796	320,315
Additions	33,912	729	649	15	35,305
Disposals	(17,135)	(30)	(38)	(84)	(17,287)
Impairment	(1,178)	-	-	-	(1,178)
Effect of movement in exchange rate	(943)	22	(8)	(4)	(933)
At December 31, 2021	297,198	20,551	17,750	723	336,222
Accumulated Depreciation					
At January 1, 2021	216,858	17,120	15,075	376	249,429
Depreciation	22,342	917	638	123	24,020
Disposals	(12,502)	(21)	(35)	(84)	(12,642)
Effect of movement in exchange rate	(941)	18	(24)	(1)	(948)
At December 31, 2021	225,757	18,034	15,654	414	259,859
Carrying amount at December 31, 2021	71,441	2,517	2,096	309	76,363

c) Capital Commitments

As at December 31, 2022, the Corporation has entered into commitments to purchase drilling and other equipment for $43.3 million (2021 - $35.6 million); delivery is expected to occur within the first half of 2023.

7. Intangible Assets

Intangible assets are mainly licenses which give the Corporation rights to use in any manner certain equipment acquired from a third party. These licenses are transferrable to other equipment should it be lost downhole, retired, or sold. The useful life of these licenses is estimated to be the same as the estimated useful life of the associated technologies.

(Stated in thousands of dollars)

	License	Development Costs	Systems/ Software	Technology	Total
Cost					
At January 1, 2022	27,658	2,643	1,961	1,826	34,088
Additions	1,261	-	-	-	1,261
Effect of movement in exchange rate	363	-	9	-	372
At December 31, 2022	29,282	2,643	1,970	1,826	35,721
Accumulated Amortization					
At January 1, 2022	11,521	2,643	1,961	1,826	17,951
Amortization	1,995	-	-	-	1,995
Effect of movement in exchange rate	98	-	9	-	107
At December 31, 2022	13,614	2,643	1,970	1,826	20,053
Carrying amount at December 31, 2022	15,668	-	-	-	15,668

(Stated in thousands of dollars)

	License	Development Costs	Systems/ Software	Technology	Total
Cost					
At January 1, 2021	25,817	2,643	1,962	1,826	32,248
Additions	1,853	-	-	-	1,853
Effect of movement in exchange rate	(12)	-	(1)	-	(13)
At December 31, 2021	27,658	2,643	1,961	1,826	34,088
Accumulated Amortization					
At January 1, 2021	9,612	2,643	1,962	1,826	16,043
Amortization	1,840	-	-	-	1,840
Effect of movement in exchange rate	69	-	(1)	-	68
At December 31, 2021	11,521	2,643	1,961	1,826	17,951
Carrying amount at December 31, 2021	16,137	-	-	-	16,137

8. Investments

Investments are comprised of 3.5 million common shares and 3.5 million warrants in a geothermal power developer, DEEP Earth Energy Production Corp. The warrants include an option for an additional $3.5 million equity upon exercise. Exercise of the warrants, which expire in three years from the initial grant date of July, 2021, is at the discretion of the Corporation.

9. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	Currency	Carrying Amount at December 31, 2022	Currency	Carrying Amount at December 31, 2021
Operating Facility	CAD	15,000	December 12, 2025	CAD	731	CAD	-
Syndicated Facility	CAD	50,000	December 12, 2025	CAD	22,000	CAD	-
Total CAD Facility		**65,000**			**22,731**	**CAD**	**-**
US Operating Facility	USD	15,000	December 12, 2025	USD	-	USD	-
Total USD Facility		**15,000**			**-**	**USD**	**-**

Under the syndicated credit agreement, the Corporation is required to maintain certain financial covenants. As at December 31, 2022 the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	As at December 31, 2022
Debt to covenant EBITDA	<3.0x	**0.27**
Interest coverage ratio	>3.0x	**62.40**

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

Under the syndicated credit agreement, in any given year, the Corporation's distributions (as defined therein) cannot exceed its distributable cash flows as defined in the Corporation's syndicated credit agreement. Distributions include, without limitation, dividends declared and paid, as well as 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. For the year ended December 31, 2022, the Corporation's distributions were 29 percent of its distributable cash flows.

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

On August 24, 2022, the Corporation extended the maturity date of the syndicated loan agreement to December 12, 2025. As at December 31, 2022 the Corporation has CAD $42 million and USD $15 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

10. Deferred Tax Assets and Liabilities

a) Unrecognized Deferred Tax Assets and Liabilities

(Stated in thousands of dollars)

				2022				2021
		Gross Amount		Tax Effect		Gross Amount		Tax Effect
Non-capital income tax losses	$	55,145	$	12,228	$	55,823	$	11,913
Investment tax credit / foreign tax credit		-		4,631		-		4,364
Drilling and other equipment		1,979		455		8,188		1,883
Intangibles		1,961		451		2,033		467
Partnership loss		-		-		1,230		283
IFRS 16 – lease liability		-		-		1,289		296
Other		6,955		1,600		11,764		2,707
	$	66,040	$	19,365	$	80,327	$	21,913

The Corporation has unrecognized deferred tax assets relating to the Canadian and international jurisdiction. Deferred tax assets have not been recognized in respect of the losses as they may not be used to offset taxable profits elsewhere in the Corporation, and they have arisen in subsidiaries that have not established indicators demonstrating that it is probable that future taxable profits will be available to utilize those loss carry-forwards. These non-capital losses will expire between 2023 and 2042. The investment tax credits and foreign tax credits will expire between 2026 and 2040.

As at December 31, 2022, the Corporation has unrecognized deferred tax assets in respect of deductible temporary differences in the Canadian jurisdiction. Deferred tax assets have not been recognized in respect of deductible temporary differences due to a recent history of taxable losses in Canada.

b) Recognized Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

(Stated in thousands of dollars)

Years ended December 31,		2022		2021
Deferred income tax assets:				
Non-capital income tax losses	$	255	$	2,283
Lease liability		9,348		8,100
Other (including foreign and other tax credits)		1,594		328
	$	11,197	$	10,711
Deferred income tax liabilities:				
Drilling and other equipment	$	(20,756)	$	(13,310)
Right-of-use asset		(6,924)		(6,015)
Intangibles		(845)		(606)
Undistributed profits		-		-
Partnership income		(1,115)		-
		(29,640)		(19,931)
Net deferred income tax liability	$	(18,443)	$	(9,220)

Non-capital income tax losses expire between 2023 and 2042. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. The determination involves an assessment of when those deferred tax assets are likely to reverse and a judgment of whether there will be sufficient taxable profits available to utilize the tax assets when they do reverse. Assumptions regarding future profitability have been made and used as the basis for recognizing the deferred tax asset. Deferred tax movements are included in net loss.

(Stated in thousands of dollars)

	Drilling and Other Equipment	Right-of-Use Asset	Intangibles	Undistributed Profits	Partnership Income	Non-Capital Income Tax Losses	Lease Liabilities	Other	Total
At January 1, 2022	(13,310)	(6,015)	(606)	-	-	2,283	8,100	328	(9,220)
Recognized in profit	(5,950)	(234)	(171)	-	(1,115)	(2,284)	338	1,134	(8,282)
Recognized in OCI	(1,495)	(675)	(68)	-	-	256	910	37	(1,035)
Other	-	-	-	-	-	-	-	94	94
At December 31, 2022	(20,755)	(6,924)	(845)	-	(1,115)	255	9,348	1,593	(18,443)

(Stated in thousands of dollars)

	Drilling and Other Equipment	Right-of-Use Asset	Intangibles	Undistributed Profits	Partnership Income	Non-Capital Income Tax Losses	Lease Liabilities	Other	Total
At January 1, 2021	(12,120)	(6,791)	(177)	(909)	-	3,681	9,167	1,798	(5,351)
Recognized in profit	(1,012)	876	(426)	922	-	(1,452)	(1,202)	(1,501)	(3,795)
Recognized in OCI	(178)	(100)	(3)	(13)	-	54	135	26	(79)
Other	-	-	-	-	-	-	-	5	5
At December 31, 2021	(13,310)	(6,015)	(606)	-	-	2,283	8,100	328	(9,220)

11. Share Capital

a) Authorized and Issued Shares

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

	Number		Amount
Balance as at January 1, 2021	50,625,920	$	247,543,263
Common shares repurchased and cancelled	(1,960,788)		(7,979,601)
Common shares repurchased and held in trust	(1,662,537)		(7,500,000)
Issued shares pursuant to share option plan	976,067		3,399,752
Balance as at December 31, 2021	47,978,662	$	235,463,414
Common shares repurchased and held in trust (Note 12b)	(626,400)		(4,110,000)
Issued shares pursuant to retention awards plan	2,277,875		14,618,748
Issued shares pursuant to share option plan	1,266,038		5,372,647
Balance as at December 31, 2022	50,896,175	$	251,344,809

b) Weighted-Average Number of Shares

	2022	2021
Issued common shares at January 1,	47,978,662	50,625,920
Effect of shares issued from trust	1,675,359	-
Effect of share options exercised	869,947	331,880
Effect of shares pursuant to shares purchased and held in trust	(379,634)	(715,428)
Effect of shares pursuant to Normal Course Issuer Bid	-	(692,405)
Weighted-average number of common shares (basic) at December 31,	50,144,334	49,549,967
Dilutive effect of share options	554,916	2,116,239
Weighted-average number of common shares (diluted) at December 31,	50,699,250	51,666,206

c) Basic and Diluted Earnings (Loss) per Share

2022		Earnings (numerator)	Shares (denominator)		Per Share Amount
Continuing operations:					
Basic earnings per share:	$	44,311,390	50,144,334	$	0.88
Diluted earnings per share:			50,699,250		0.87
Discontinued operations:					
Basic loss per share:	$	(14,558,032)	50,144,334	$	(0.29)
Diluted loss per share:			50,144,334		(0.29)
Net earnings:					
Basic earnings per share:	$	29,753,358	50,144,334	$	0.59
Diluted earnings per share:			50,699,250		0.58

2021		Earnings (numerator)	Shares (denominator)		Per Share Amount
Continuing operations:					
Basic earnings per share:	$	23,317,674	49,549,967	$	0.47
Diluted earnings per share:			51,666,206		0.45
Discontinued operations:					
Basic loss per share:	$	(593,039)	49,549,967	$	(0.01)
Diluted loss per share:			49,549,967		(0.01)
Net earnings:					
Basic earnings per share:	$	22,724,635	49,549,967	$	0.46
Diluted earnings per share:			51,666,206		0.44

The Corporation realized profits in both the year ended December 31, 2022 and 2021. The number of options which had a dilutive effect is 1,133,334 for the year ended December 31, 2022, all had exercise prices below the

Corporation's ending share price for 2022. For the year ended December 31, 2021 the number of options outstanding was 2,854,200, all dilutive.

As at December 31, 2022, retention awards of 2,845,191 (2021 – 3,267,579) were excluded from the diluted weighted average number of ordinary shares calculation because the effect would have been anti-dilutive.

d) Dividends

On December 15, 2022, the Corporation declared a dividend of $0.15 per share or $7.6 million, payable on January 16, 2023 to shareholders of record on December 30, 2022.

e) Normal Course Issuer Bid ("NCIB")

During the third quarter of 2022, the TSX approved the renewal of PHX Energy's Normal Course Issuer Bid ("NCIB") to purchase for cancellation, from time-to-time, up to a maximum of 3,622,967 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 3, 2022. The NCIB commenced on August 16, 2022 and will terminate on August 15, 2023. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

For the year ended December 31, 2022, the Corporation did not repurchase shares through its previous or current NCIB.

The Corporation's previous NCIB commenced on August 16, 2021 and terminated on August 15, 2022. Pursuant to the previous NCIB, 1,499,900 common shares were purchased by the Corporation and cancelled during the year ended December 31, 2021.

12. Share-Based Payments

a) Share Option Program (Equity-Settled)

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

Summary of option grants in 2022

Number	Exercise Price	Expiration Date	Fair Value
150,000	$ 6.08	March 4, 2027	$ 1.91
100,000	6.16	March 4, 2027	1.89
250,000			

The Corporation values all of its share options using the Black-Scholes model. The Corporation's determination of fair value of options on the date of grant is affected by the Corporation's share price as well as assumptions regarding a number of variables. For the options granted during 2022 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 54 percent, forfeiture rate of nil, dividend yield of 4.89 percent and a risk-free interest rate of 1.4 percent. The amounts computed according to the Black-Scholes model method may not be indicative of the actual values realized upon the exercise of these options by the holders.

During 2022, the Corporation recognized a total compensation expense of $451,188 (2021 - $383,604) for share options granted between 2020 and 2022. During the year-ended December 31, 2022, a total of 1,047,800 options granted in 2017 were net equity-settled through the issuance of 342,972 common shares.

A summary of the status of the plan as at December 31, 2022, is presented below:

	2022		2021	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of year	**2,854,200**	**$ 3.15**	3,345,267	$ 3.01
Granted	**250,000**	**6.11**	500,000	2.70
Exercised	**(1,970,866)**	**3.44**	(976,067)	2.40
Forfeited / cancelled	**-**	**-**	(15,000)	4.15
Outstanding, end of year	**1,133,334**	**$ 3.31**	2,854,200	$ 3.15
Options exercisable, end of year	**799,994**	**$ 2.86**	2,437,530	$ 3.25

The weighted-average share price at the date of exercise for share options exercised in 2022 was $5.98 (2021 - $4.05).

The range of exercise prices for options outstanding at December 31, 2022 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	0.19 yrs	$ 1.95	50,000	$ 1.95
50,000	0.19 yrs	2.00	50,000	2.00
50,000	2.18 yrs	2.09	50,000	2.09
150,000	2.18 yrs	2.19	150,000	2.19
133,334	3.18 yrs	2.64	66,666	2.64
300,000	3.18 yrs	2.74	199,998	2.74
100,000	1.18 yrs	2.81	100,000	2.81
50,000	1.18 yrs	2.83	50,000	2.83
150,000	4.18 yrs	6.08	49,998	6.08
100,000	4.18 yrs	6.16	33,332	6.16
1,133,334	2.69 yrs	$ 3.31	799,994	$ 2.86

b) Retention Award Plan

The retention award plan has two types of awards: Restricted Awards ("RAs") and Performance Awards ("PAs") and results in eligible participants, as approved by the Board, receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired by an independent trustee in the open market are held in trust for the potential settlement of RA and PA award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlements. For the year ended December 31, 2022, the independent trustee purchased 626,400 common shares (2021 – 1,662,537) for a total cost of $4.1 million (2021 - $7.5 million) and released 2,277,875 common shares (2021 – nil) to settle retention award obligations of $14.6 million (2021 - $nil). As at December 31, 2022, the independent trustee held 11,064 common shares in trust (2021 – 1,662,537). The Corporation continues to account for its retention award plan as cash-settled share-based compensation.

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

PAs vesting and subsequent exercise is similar to RAs, except a payout multiplier is applied to the final payout. The payout multiplier is linked solely to total shareholder return on the Corporation's common shares relative to returns on securities of members of the Corporation's peer comparison group over the applicable vesting period and can range from a payout of zero percent to 200 percent. During the year ended December 31, 2022, 750,000 PAs were granted (2021 – 750,000), 774,152 PAs settled at a weighted-average payout multiplier of 184 percent (2021 –

757,184), and 391,931 PAs were forfeited (2021 - nil). As at December 31, 2022, 1,198,469 PAs were outstanding (2021 – 1,529,226).

The Corporation recorded a total of $24.6 million compensation expense relating to these plans for the year ended December 31, 2022 (2021 – $12.9 million). The expense is included in selling, general and administrative expense and has a corresponding liability of $14.2 million in trade and other payables for the current portion and $4.5 million included in other liabilities for the long-term portion. There were 2,845,191 RAs and PAs outstanding as at December 31, 2022 (2021 - 3,267,579). The closing share price on December 31, 2022 of PHX stock was $7.77.

A summary of the status of the plan as at December 31, is presented below:

	2022	2021
RAs and PAs outstanding, beginning of year	3,267,579	3,487,297
Granted	1,613,555	1,666,514
Settled	(1,644,012)	(1,808,415)
Forfeited / cancelled	(391,931)	(77,817)
RAs and PAs outstanding, end of year	2,845,191	3,267,579

c) Prior Period Adjustment

The Corporation identified that the classification of the cash-settled liability awards between current and long-term liabilities was not correct as at December 31, 2021. As a result, the Corporation adjusted the December 31, 2021 statement of financial position to reclassify $2.8 million of liabilities from current (trade and other payables) to long-term (other non-current liabilities).

13. Expenses by Nature

(Stated in thousands of dollars)

Years ended December 31,	2022	(*adjusted - Note 4*) 2021
Salaries and employee benefits	150,141	93,671
Share-based payments	25,020	13,313
Personnel expenses	175,161	106,984
Equipment expenses	144,813	85,683
Consumed repair parts	49,683	40,597
Contract labour	39,767	27,654
Depreciation and amortization drilling and other equipment	32,119	25,860
Field and freight expenses	21,099	11,995
Insurance and business and sales taxes	15,637	11,792
Facility and office expenses	7,924	5,867
Travel and entertainment	5,665	3,446
Depreciation and amortization right-of-use asset	3,235	3,336
Other	1,008	640
Provisions for inventory	1,299	2,033
Legal and audit fees	1,634	1,269
Government grants	(314)	(8,763)
	498,730	318,393

The total amount of expenses represents the aggregate of direct costs, selling, general and administrative expenses, and research and development expenses in the statements of comprehensive earnings.

14. Other Income

(Stated in thousands of dollars)

Years ended December 31,	2022	(*adjusted - Note 4*) 2021
Net gain on disposition of drilling equipment (Note 6b)	$ 19,492	$ 7,746
Foreign exchange loss	(287)	(85)
Recovery of bad debts	13	281
Other	512	-
	$ 19,730	$ 7,942

15. Income Taxes

(Stated in thousands of dollars)

Years ended December 31,		2022		*(Re-presented – Note 4)* 2021
Current tax expense (recovery):				
Current period	$	914	$	17
Adjustment for prior periods		(154)		(253)
		760		(236)
Deferred tax recovery:				
Origination and reversal of temporary differences		8,236		4,014
Adjustment for prior periods		46		(219)
		8,282		3,795
Total income tax expense	$	9,042	$	3,559

Reconciliation of effective tax rate

Years ended December 31,		2022			*(Re-presented – Note 4)* 2021	
Net earnings	$	44,311		$	23,317	
Total income tax provision		9,042			3,559	
Income before income taxes		53,353			26,876	
Income tax using the Corporation's domestic tax rate		12,271	23.0%		6,045	22.5%
Non-taxable portion of gains on disposal of assets		(479)	(0.9%)		(226)	(0.8%)
Change in unrecognized deductible temporary differences		(4,773)	(8.9%)		3,540	13.2%
Effect of tax rates in foreign jurisdictions		(1,646)	(3.1%)		(3,075)	(11.4%)
Non-deductible loss / non-taxable gain on investments		4,536	8.5%		-	-
Research and development tax credit		(280)	(0.5%)		(1,165)	(4.3%)
Non-deductible share-based payments and other expenses		(516)	(1.0%)		218	0.8%
Other		(71)	(0.1%)		(1,778)	(6.6%)
	$	9,042	17.0%	$	3,559	13.2%

16. Operating Segments

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

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Years ended December 31[ii],	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Total revenue	**108,544**	67,354	**423,083**	272,492	**4,118**	100	**535,745**	339,946
Reportable segment profit (loss) before income taxes [i]	**8,700**	3,489	**64,030**	43,636	**1,412**	(1,161)	**74,142**	45,964

[i] Includes adjustments to intercompany transactions.
[ii] 2021 has been re-presented to exclude discontinued operations (Note 4).

(Stated in thousands of dollars)

	Canada		United States[i]		International		Total	
As at December 31,	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Drilling and other equipment	**26,519**	14,746	**88,957**	60,662	**469**	955	**115,945**	76,363

[i] December 31, 2022 includes USD $1.6 million of drilling and other equipment physically located in the Middle East region (2021 – USD $1.6 million).

Reconciliation of reportable segment loss and other material items

(Stated in thousands of dollars)

Years ended December 31,	**2022**	(Re-presented – Note 4) 2021
Reportable segment income before income taxes	**$ 74,142**	$ 45,964
Corporate:		
Selling, general and administrative expenses	**33,404**	21,637
Research and development expenses	**3,723**	2,774
Finance expense	**1,360**	494
Finance expense lease liability	**2,032**	2,125
Other income	**(19,730)**	(7,942)
Earnings from continuing operations before income taxes	**$ 53,353**	$ 26,876

17. Changes in Non-Cash Working Capital

Changes in non-cash working capital relating to operating activities:

(Stated in thousands of dollars)

Years ended December 31,		2022		2021
Trade and other receivables	$	(47,647)	$	(30,668)
Inventories		(26,919)		(9,217)
Prepaid expenses		(1,095)		(784)
Trade and other payables		27,478		41,561
Retention award liabilities settled in shares		14,619		-
Impact of foreign exchange rate changes and other in working capital		2,061		(4,343)
	$	(31,503)	$	(3,451)

Changes in non-cash working capital relating to investing activities:

(Stated in thousands of dollars)

Years ended December 31,		2022		2021
Impact of foreign exchange rate changes and other in working capital		7		4,165
	$	7	$	4,165

18. Financial Instruments

a) Credit Risk

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, 2022, one customer comprised 19 percent of the total revenue (2021 - 27 percent of revenue). The customer's revenue is reported within the US operating segment.

As at December 31, 2022, the aging of trade and other receivables that were not impaired was as follows:

(Stated in thousands of dollars)

	2022
Neither past due nor impaired	$ 81,086
Past due 1-30 days	30,344
Past due 31-60 days	10,397
Past due 61-90 days	1,699
Past due over 90 days	2,310
	$ 125,836

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 2 percent or approximately $2.3 million of total receivables on the statement of financial position at December 31, 2022. 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, 2022 (2021 - $0.3 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.

b) 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 related to continuing operations as at December 31, 2022:

(Stated in thousands of dollars)

	2023	2024	2025	2026	2027 and after
Drilling and other equipment purchase commitments	43,256	-	-	-	-
Trade and other payables	104,689	-	-	-	-
Other non-current liabilities	-	3,740	722	-	-
Dividends payable	7,636	-	-	-	-
Bank loan interest and principal (i)	1,082	1,031	23,713	-	-
Lease payments (ii)	6,480	5,920	5,504	5,397	13,986
	163,143	10,691	29,939	5,397	13,986

(i) Bank loan interest has been estimated using interest rates in effect at December 31, 2022.
(ii) Lease payment amounts are gross and undiscounted contractual cash flows and include low value and short-term leases.

c) Fair Values of Financial Instruments

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

Equity investments in a company are designated as non-derivative financial assets measured at FVOCI as the investment is not held-for-trading and fair value changes are not reflective of the Corporation's operations. The investment asset is carried at fair value on the consolidated statement of financial position. Fair value is considered level 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.

d) 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 $142 thousand for the year ended December 31, 2022.

e) 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, 2022, foreign currency translation gains of $8.8 million (2021 – $0.1 million loss) that resulted from fluctuations in the CAD-USD exchange rates was recognized in other comprehensive income and $10.6 million of foreign currency translation losses was reclassified from other income to net earnings upon sale of the Russia operations (Note 4). For the year ended December 31, 2022, foreign exchange losses of $0.3 million (2021 - $0.1 million loss) were recognized as part of earnings from continuing operations. 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, 2022	**CAD**	**USD**
Cash and cash equivalents	**-**	**1,444**
Trade and other receivables	**-**	**-**
Trade and other payables	**-**	**(2,141)**
Intercompany receivables	**1,235**	**-**
Statement of financial position exposure	**1,235**	**(697)**

As at December 31, 2021 (*re-stated*)	CAD	USD
Cash and cash equivalents	-	4,385
Trade and other receivables	-	-
Trade and other payables	-	(2,360)
Intercompany payables	(2,889)	-
Statement of financial position exposure	(2,889)	2,025

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

	Average Rate		December 31, Close Rate	
	2022	2021	**2022**	2021
USD	**1.3017**	1.2537	**1.3544**	1.2678

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.

Gain (Loss)		2022		2021
CAD (10% strengthening)	$	91	$	(246)
USD (10% strengthening)		(95)		248

19. Capital Management

The Corporation's primary objective of capital management is to maintain a strong capital base, in conjunction with conservative long-term debt levels so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Corporation seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security created by a strong equity position.

The Corporation's management considers the capital structure to consist of long-term debt and shareholders' equity. As at December 31, 2022, the Corporation had $22.7 million in loans and borrowings outstanding (2021 – $nil) and $176.9 million (2021 – $134.4 million) in shareholders' equity. The Corporation's resulting long-term debt to equity ratio was 0.13 as at December 31, 2022 (2021 – nil).

The Corporation prepares annual and quarterly operating and capital expenditure budgets, and forecasts to assist with the management of its capital. The Corporation intends to maintain a flexible capital structure and it may alter its dividend levels, raise new equity or issue new debt in response to a change in economic conditions.

The Corporation is subject to capital requirements relating to debt covenants on debt facilities held. As at December 31, 2022, the Corporation was in compliance with all debt covenants.

There were no changes to the Corporation's approach to capital management during the year ended December 31, 2022.

20. Leases

a) Leases as Lessee

The Corporation leases shop facilities, offices, and vehicles. The shop and office leases typically run for a period between 5 to 15 years, with an option to renew the lease after that date. Vehicle leases typically run for a period between 3 to 6 years with an option to purchase the vehicle. Office leases that are sub-leased by the Corporation are applied against the right-of-use asset. The office lease and sublease expires in the year 2023.

The Corporation elected not to recognize right-of-use assets and lease liabilities for leases that were short-term, expired in 2022, or were low-value items like office equipment. Information about leases for which the Corporation is the lessee is presented below.

i. Right-of-Use Assets

Right-of-use assets relate to leased properties that do not meet the definition of investment property.

(Stated in thousands of dollars)

	Shop and Office Buildings	Vehicles	Total
2022			
Balance at January 1,	$ 24,972	$ 736	$ 25,708
Depreciation charge for the year	(2,904)	(331)	(3,235)
Additions to right-of-use assets	6,171	333	6,504
Derecognition of right-of-use assets [i]	(110)	(61)	(171)
Effect of movement in exchange rate	411	119	530
Balance at December 31,	$ 28,540	$ 796	$ 29,336

[i] Derecognition of right-of-use assets during 2022 is a result of recognition of sub-lease income

(Stated in thousands of dollars)

	Shop and Office Buildings	Vehicles	Total
2021			
Balance at January 1,	$ 28,084	$ 873	$ 28,957
Depreciation charge for the year	(2,971)	(365)	(3,336)
Additions to right-of-use assets	-	268	268
Derecognition of right-of-use assets [i]	(104)	(26)	(130)
Effect of movement in exchange rate	(37)	(14)	(51)
Balance at December 31,	$ 24,972	$ 736	$ 25,708

[i] Derecognition of right-of-use assets during 2021 is a result of early termination of vehicle leases and recognition of sub-lease income.

ii. Lease Liability

Lease liability relate to leased properties and are amortised over the life of the lease.

(Stated in thousands of dollars)

		Shop and Office Buildings	Vehicles	Total
2022				
Balance at January 1,	$	35,059	812	35,871
Additions and modifications		6,171	333	6,504
Payments		(2,940)	(331)	(3,271)
Effect of movement in exchange rate		550	21	571
Balance at December 31,	$	38,840	835	39,675

(Stated in thousands of dollars)

		Shop and Office Buildings	Vehicles	Total
2021				
Balance at January 1,	$	38,159	938	39,097
Additions and modifications		-	268	268
Payments		(2,928)	(368)	(3,296)
Derecognition before lease end date		-	(27)	(27)
Effect of movement in exchange rate		(172)	1	(171)
Balance at December 31,	$	35,059	812	35,871

iii. Amounts Recognized in Consolidated Statements of Comprehensive Earnings

(Stated in thousands of dollars)

Years ended December 31,		2022		*(Re-presented Note 4)* 2021
Interest on lease liabilities	$	2,032	$	2,125
Income from sub-leasing right-of-use assets presented in "finance expense lease liability"		(3)		(3)
Expenses relating to short-term leases		448		363
Expenses relating to leases of low-value assets, excluding short-term leases of low value		90		90
	$	2,567	$	2,575

iv. Amounts Recognized in Consolidated Statements of Cash Flows

(Stated in thousands of dollars)

Years ended December 31,		2022		2021
Total cash outflow for IFRS 16 Leases	$	(5,303)	$	(5,420)

v. Extension Options

Shop and office leases contain extension options exercisable by the Corporation during the term of the lease. Where practicable, the Corporation seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Corporation and not by the lessors.

If the Corporation is reasonably expected to exercise the extension options, the effect of the potential future lease payments are reflected in the long-term lease liabilities.

b) Leases as Lessor

During 2022 the Corporation sub-leased offices that are presented as part of a right-of-use asset. During the 2022 year the Corporation recognized interest income on lease receivables of $3 thousand (2021 – $3 thousand). Lease payments to be received after the reporting date are immaterial as leases conclude in the first quarter of 2023.

21. Related Parties

a) Transactions with Key Management Personnel

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation as a whole. The Corporation determined that key management personnel consists of members of the Board, the Chief Executive Officer, President, and Senior Vice Presidents reporting directly to the Chief Executive Officer or President.

In addition to their salaries, the Corporation also provides its executive officers with annual incentives which consist of bonuses and commissions that the Human Resources and Compensation Committee considers comparable to benefits provided to executives of other publicly traded oil and natural gas service companies.

Executive officers also participate in the Corporation's share option program and retention award plan.

The Corporation, either directly or indirectly through its subsidiaries, has entered into executive employment agreements with certain executive officers that provide for termination payments. These agreements continue indefinitely until terminated in accordance with the terms thereof and the base salary payable there under is subject to annual review.

Key management personnel compensation comprised:

Years ended December 31,	2022	2021
Base salaries, benefits, and directors' remuneration	$ 2,568,335	$ 3,326,404
Short-term bonuses and commissions	7,393,980	6,925,243
Share-based compensation	3,393,550	3,539,642
	$ 13,355,865	$ 13,791,289

Key management personnel and director transactions

As at December 31, 2022, Directors and Executive Officers of the Corporation control 15 percent of the common shares of the Corporation.

Independent Directors are entitled to receive an annual retainer as well as a fee for each meeting of the Board or Committee of the Board attended. The Lead Director receives an additional annual retainer, as do the Chairs of the Audit Committee, Human Resources and Compensation Committee, and Nomination and Corporate Governance Committee. Directors are also entitled to participate in the retention award plan (see Note 12) and can elect to receive certain percentages of these fees as RAs under the retention award plan. As at December 31, 2022, the Directors held 1,086,395 of RAs outstanding (2021 – 803,460).

From time-to-time, Directors of the Corporation, or their related entities, may purchase goods or services from the Corporation. These purchases are on the same terms and conditions as those entered into by other Corporation employees or customers. For the year ended December 31, 2022, there were purchases of inventory in the amount of $30 thousand from a related party (2021 – $nil).

22. Significant Subsidiaries

	Country of Incorporation	Functional Currency	Ownership Interest	
			2022	2021
Phoenix Technology Services Inc.	Canada	CAD	**100%**	100%
Phoenix Technology Services LP	Canada	CAD	**100%**	100%
Phoenix Technology Services USA Inc.	USA	USD	**100%**	100%
Phoenix Technology Services Luxembourg Sarl.	Luxembourg	USD	**100%**	100%
Phoenix Technology Services International Ltd. (i)	Cyprus	CAD	**100%**	100%

(i) Entity holds a branch in Albania.

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Karen David-Green

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta