2023 Annual Report

PHX
ENERGY SERVICES CORP.

Photo Credit: Eric Robinson, US MWD Operator & Alberto Gonzalez, US Directional Driller

Management's Discussion and Analysis

Fourth Quarter and Year-End Report for the three and twelve-month periods ended December 31, 2023 and 2022

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, 2023 and 2022 and the accompanying notes contained therein as well as other sections contained within the Corporation's 2023 annual report. Readers can also obtain additional information on the Corporation including its most recently filed Annual Information Circular and Annual Information Form ("AIF") on SEDAR+ at www.sedarplus.ca. This MD&A has been prepared taking into consideration information available up to and including February 27, 2024.

PHX Energy's audited annual financial statements for the years ended December 31, 2023 and 2022 have been prepared in accordance with IFRS Accounting Standards, as issued by the International Accounting Standards Board. The MD&A and audited annual financial statements were reviewed by PHX Energy's Audit Committee and approved by PHX Energy's Board of Directors (the "Board") on February 27, 2024.

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, 2023, PHX Energy generated consolidated revenue of $165.3 million, the highest level of fourth quarter revenue on record and the third highest level of quarterly revenue in the Corporation's history. Revenue in the third and first quarter of 2023 are the first and second highest quarterly revenue on record, respectively. Consolidated revenue in the 2023-quarter included $10.3 million of motor rental revenue and $0.9 million of motor equipment and parts sold.

- Earnings from continuing operations increased by 63 percent to $33.1 million, $0.68 per share, in the 2023-quarter from $20.3 million, $0.39 per share, in the 2022 three-month period. The 2023-quarter's earnings are the highest level of quarterly earnings in the Corporation's history. Earnings from continuing operations in the 2023-quarter included $9.5 million of recovery of income taxes that primarily resulted from the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction.

- In the 2023 three-month period, adjusted EBITDA[1] from continuing operations was $35.4 million, 21 percent of consolidated revenue[1] and is 4 percent higher compared to $33.9 million, 21 percent of consolidated revenue, in the same 2022-period. Included in the 2023-quarter's adjusted EBITDA is $4.6 million in cash-settled share-based compensation expense (2022 - $6.9 million). Adjusted EBITDA excluding cash-settled share-based compensation

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expense(1) in the fourth quarter of 2023 was $40 million, 24 percent of consolidated revenue(1) (2022 - $40.8 million, 26 percent of consolidated revenue).

- PHX Energy's US division revenue in the fourth quarter of 2023 was $122.1 million, only 3 percent lower compared to the record $125.7 million generated in the fourth quarter of 2022. US division revenue in the 2023-quarter represented 74 percent of consolidated revenue.
- PHX Energy's Canadian division reported $42.4 million of quarterly revenue, 38 percent higher compared to $30.7 million in the 2022-quarter and is the highest level of fourth quarter revenue for the Canadian division since 2014.
- In the 2023-quarter, the Corporation generated excess cash flow(2) of $22.3 million, after deducting capital expenditures(3) of $15.5 million offset by proceeds on disposition of drilling and other equipment of $11 million. This level of excess cash flow is a 57 percent increase over the fourth quarter of 2022.
- In the fourth quarter of 2023, PHX Energy continued to deliver additional returns to its shareholders and purchased and canceled 1,322,100 common shares for $11.3 million through its current Normal Course Issuer Bid ("NCIB").
- For the three-month period ended December 31, 2023, PHX Energy paid $7.3 million ($0.15 per share) in dividends, which is 50 percent, or $0.05 per share, more than the quarterly dividends paid in the same 2022-quarter. On December 15, 2023, the Corporation declared a dividend of $0.20 per share or $9.5 million, paid on January 15, 2024 to shareholders of record on December 29, 2023.

Year End Highlights

- With PHX Energy achieving record revenue for three of the quarters in 2023, the Corporation's 2023 annual consolidated revenue of $656.3 million is the highest in the Corporation's history and an increase of 23 percent from 2022. Consolidated revenue in the 2023-year included $47 million of motor rental revenue (2022 - $33.3 million) and $11 million of motor equipment and parts sold (2022 – nil).
- Earnings from continuing operations, adjusted EBITDA(1) from continuing operations, and adjusted EBITDA as a percentage of consolidated revenue(1) are all the best annual results on record. Earnings from continuing operations more than doubled to $98.6 million, $1.96 per share, in the 2023 twelve-month period from $44.3 million, $0.87 per share, in 2022. Adjusted EBITDA from continuing operations increased by 63 percent year-over-year to $150.7 million, $2.86 per share, which represented 23 percent of consolidated revenue, an increase compared to 17 percent of consolidated revenue in 2022. Included in the 2023-year's adjusted EBITDA is $13.5 million in cash-settled share-based compensation expense (2022 - $24.6 million). Adjusted EBITDA excluding cash-settled share-based

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compensation expense[1] in the 2023-year was $164.2 million, 25 percent of consolidated revenue (2022 - $117.3 million, 22 percent of consolidated revenue).

- The Corporation's US division achieved its highest annual revenue for the second consecutive year. US revenue in 2023 increased by 17 percent to $496.5 million and represented 76 percent of consolidated revenue.
- PHX Energy's Canadian division generated annual revenue of $155.5 million (2022 - $108.5 million), the highest level since 2014.
- For the year ended December 31, 2023, PHX Energy generated excess cash flow[2] of $92.8 million, after deducting capital expenditures of $64.9 million offset by proceeds on disposition of drilling and other equipment of $43.7 million. This level of excess cash flow is more than four times the amount generated in the 2022-year. As at December 31, 2023, the Corporation had $4.4 million of remaining distributable balance under the Return of Capital Strategy ("ROCS")[2]. This balance will be carried forward into 2024 and is targeted to be used for future NCIB purchases.
- In the 2023 twelve-month period, through its previous and current NCIB, the Corporation purchased and canceled 4,032,600 common shares for $30.4 million.
- PHX Energy paid $30.2 million in dividends ($0.60 per share) in the 2023-year which is double the dividend amount paid in 2022.
- The Board has previously approved a preliminary 2024 capital expenditure budget of $70 million. With $5 million of the 2023 capital expenditure budget carried forward into 2024, the Corporation now anticipates spending $75 million in capital expenditures during 2024.
- As at December 31, 2023, the Corporation had working capital[2] of $93.9 million and net cash[2] of $8.9 million with credit facility capacity in excess of $107 million.

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Financial Highlights

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

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Operating Results – Continuing Operations						
Revenue	**165,332**	157,758	5	**656,341**	535,745	23
Earnings	**33,134**	20,333	63	**98,580**	44,311	122
Earnings per share – diluted	**0.68**	0.39	74	**1.96**	0.87	125
Adjusted EBITDA (1)	**35,388**	33,874	4	**150,717**	92,719	63
Adjusted EBITDA per share – diluted (1)	**0.70**	0.66	6	**2.86**	1.83	56
Adjusted EBITDA as a percentage of revenue (1)	**21%**	21%		**23%**	17%	
Cash Flow – Continuing Operations						
Cash flows from operating activities	**36,754**	8,970	310	**96,723**	38,338	152
Funds from operations (2)	**28,167**	25,068	12	**119,317**	72,482	65
Funds from operations per share – diluted (3)	**0.56**	0.49	14	**2.26**	1.43	58
Dividends paid per share (3)	**0.15**	0.10	50	**0.60**	0.30	100
Dividends paid	**7,277**	5,078	43	**30,189**	15,148	99
Capital expenditures (3)	**15,474**	21,474	(28)	**64,932**	73,525	(12)
Excess cash flow (2)	**22,347**	14,269	57	**92,813**	21,113	340
Financial Position, December 31,						
Working capital (2)				**93,915**	94,339	-
Net debt (Net cash) (2)				**(8,869)**	4,484	n.m.
Shareholders' equity				**209,969**	176,878	19
Common shares outstanding				**47,260,472**	50,896,175	(7)

n.m. – not meaningful

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Non-GAAP and Other Financial Measures

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

We believe the record results set in the past two years are a testament to the strength of our technology, people and commitment to providing our customers with unmatched services and value. Our positive momentum through the 2023-year and the cumulative results of the strong quarterly results led to an all-time record year on many fronts. This high level of performance allowed us to leverage our ROCS and distribute $60.6 million of our excess cash flow to reward shareholders through NCIB purchases and dividends.

- Entering 2024, we continue to be a provider of choice for 12 of the top 15 US operators, however, a few of these customers have recently altered their well profiles which has impacted our RSS utilization and average revenue per day. We do believe with the strength of our operations and marketing teams we will be able to deploy more RSS assets to new and other existing clients in upcoming quarters, especially with the addition of the iCruise technology.
- Currently, our US motor rental business' activity levels are in line with the fourth quarter of 2023. We continue to believe there is a market opportunity to deploy more rental motors and foresee further growth in later quarters of

2024. This growth will be driven by both the creation of a dedicated rental fleet that is included in our 2024 capital spending program and the current marketing strategies underway.

- The revenue stream generated from our Atlas sales business will continue in 2024 as existing customers place ongoing orders for parts to maintain their fleet. Additionally, there could be potential for further motor sales from our existing customers if they expand their fleets and possibly to new customers.
- Thus far in 2024, the strong activity levels in Canada from the fourth quarter have continued as we work for 9 of the 10 top operators. We foresee the second quarter being more resilient than typical in spring break-up, as our customer mix is currently focused on areas that are less impacted. However the weakness in natural gas prices may have an impact on the third and fourth quarter. We will continue to increase the deployment of our premium technology in Canada, and leverage recently commercialized technologies our R&D efforts have produced to gain market share and improve revenue per day.
- In 2023, our R&D expenditures increased 40 percent compared to 2022, with a significant focus on developing real-time communications technology that allows our RSS to transmit data to our MWD systems. This is a technology that Operators utilizing RSS are demanding and with our unique RSS fleet it further entrenches us as an industry leader. We believe this ancillary technology will create advantages and opportunities to seize more market share even with the static industry activity predicted.
- The strong operating and financial results in 2023, supported our ROCS program where we created $60.6 million of shareholder returns in the form of share buy backs and dividends payments. We are committed to continuing the ROCS program in 2024, and will continue to focus on delivering value to our shareholders.

With the US industry appearing to have leveled off and the Canadian industry remaining flat we are cautiously optimistic for 2024. We know we have many operational advantages and our drive to remain at the forefront of directional technology remains strong. Although we have seen a slight weakening in 2024 thus far, we foresee the first quarter 2024 on a historical basis continuing to be a top performing quarter, albeit not at the all-time records seen in 2023.

Michael Buker, President
February 27, 2024

Overall Performance

In the fourth quarter of 2023, the Corporation generated consolidated revenue of $165.3 million, an increase of 5 percent as compared to $157.8 million in the 2022-quarter. This level of quarterly revenue is the third highest level in the Corporation's history and is the record level of fourth quarter revenue. Despite the North American rig count softening further in the 2023-quarter, PHX Energy's consolidated revenue grew which was supported by strong activity in Canada and increased capacity in its fleet of premium technologies.

For the quarter ended December 31, 2023, the Corporation's US division's revenue slightly decreased by 3 percent to $122.1 million compared to the record $125.7 million in the same 2022-quarter. In the 2023 three-month period, US industry drilling activity continued to decline and during the period PHX Energy's US operating days[(3)] decreased by 15 percent to 4,114 days from 4,843 in the fourth quarter of 2022. The impact of the lower operating days was cushioned by the 15 percent improvement in the average revenue per day[(3)] for directional drilling services. Rotary Steerable ("RSS") services accounted for a larger portion of the division's activity during the 2023-quarter, and this partly contributed to the increased average revenue per day for directional drilling services quarter-over-quarter. Included in the US division revenue for the 2023 three-month period is $9.9 million of motor rental revenue and $0.9 million of motor equipment and parts sold (2022-quarter - $11.4 million and nil, respectively). In the 2023-quarter, revenue from the Corporation's US division represented 74 percent of consolidated revenue (2022 – 80 percent).

The Corporation's Canadian division generated its highest level of fourth quarter revenue since 2014 despite the Canadian industry drilling activity declining quarter-over-quarter. Canadian division revenue in the 2023 three-month period grew to $42.4 million, a 38 percent increase from $30.7 million in the same 2022-period. The Canadian segment recorded 3,099 operating days in the 2023-quarter, a 21 percent increase from the 2,571 operating days realized in the comparable 2022-quarter. Average revenue per day realized by the Canadian division also improved by 15 percent quarter-over-quarter.

For the three-month period ended December 31, 2023, earnings from operations were $33.1 million (2022 - $20.3 million) and adjusted EBITDA from continuing operations[(1)] was $35.4 million (2022 - $33.9 million), 21 percent of consolidated revenue. Earnings from operations in the fourth quarter of 2023 is the highest level of quarterly earnings in the Corporation's history. Included in the 2023-quarter earnings is $9.5 million of recovery of income taxes that primarily resulted from the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction. Included in the 2023 three-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $4.6 million (2022

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- $6.9 million). For the three-month period ended December 31, 2023, adjusted EBITDA excluding cash-settled share-based compensation expense is $40 million (2022 - $40.8 million).

In each quarter of 2023, PHX Energy set the records for that particular quarter in revenue, earnings from continuing operations, and adjusted EBITDA from continuing operations, which accumulated to the highest annual results in the Corporation's history. For the year ended December 31, 2023, the Corporation's consolidated revenue increased by 23 percent to $656.3 million from $535.7 million in 2022. Earnings from continuing operations for the 2023-year more than doubled to $98.6 million from $44.3 million in the 2022-year. Adjusted EBITDA from continuing operations was $150.7 million (23 percent of revenue), a 63 percent improvement compared to the $92.7 million (17 percent of revenue) reported in the 2022-year. Included in the 2023 twelve-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $13.5 million (2022 - $24.6 million). For the year ended December 31, 2023, adjusted EBITDA excluding cash-settled share-based compensation expense is $164.2 million (2022 - $117.3 million).

In November 2023, the Corporation increased the borrowing capacity in the syndicated facility from CAD $50 million to CAD $80 million and in the US operating facility from USD $15 million to USD $20 million. The Corporation also extended the maturity date of the syndicated loan agreement to December 12, 2026. With the increased borrowing capacity, the Corporation has approximately CAD $87 million and USD $20 million available to be drawn from its credit facilities. As at December 31, 2023, the Corporation had working capital[(2)] of $93.9 million and net cash[(2)] of $8.9 million.

Dividends and ROCS

In November 2023, the Board approved an increase to the Corporation's quarterly dividend to $0.20 per common share from $0.15 per common share, which commenced with the dividend payable January 15, 2024 to shareholders of record at the close of business on December 29, 2023. An aggregate of $9.5 million was paid on January 15, 2024. This is the fifth dividend increase since the dividend program was reinstated in December 2020 and is a 700 percent increase from the dividend payable on December 31, 2020.

The Corporation remains committed to enhancing shareholder returns through its Return of Capital Strategy ("ROCS") that includes multiple options including the dividend program and the NCIB. In 2023, 70 percent of PHX Energy's excess cash flow[(2)] was $65 million, $30.4 million of which was used to repurchase shares under the NCIB and $30.2 million was used to pay dividends to shareholders. The remaining distributable balance under ROCS[(2)] of $4.4 million will be carried forward into 2024 and is targeted to be used for future NCIB purchases.

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(Stated in thousands of dollars)

	Year ended December 31, 2023
Excess cash flow[2]	**92,813**
70% of excess cash flow	**64,969**
Deduct:	
Repurchase of shares under the NCIB	**(30,366)**
Dividends paid to shareholders	**(30,189)**
Remaining Distributable Balance under ROCS[2]	**4,414**

Normal Course Issuer Bid

During the third quarter of 2023, the TSX approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,552,810 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 2, 2023. The NCIB commenced on August 16, 2023 and will terminate on August 15, 2024. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase.

Pursuant to the previous and current NCIB, 4,032,600 common shares were purchased by the Corporation for $30.4 million and cancelled in the year-ended December 31, 2023. Pursuant to the previous NCIB, no common shares were purchased during the 2022-year by the Corporation and cancelled.

Capital Spending

For the year ended December 31, 2023, the Corporation spent $64.9 million in capital expenditures, of which $34.4 million was spent on growing the Corporation's fleet of drilling equipment, $14.6 million was spent to replace retired assets, and $15.9 million was spent to replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $43.7 million, the Corporation's net capital expenditures[2] for the 2023-year were $21.2 million. Capital expenditures in the 2023-year were primarily directed towards Atlas High Performance motors ("Atlas"), Velocity Real-Time systems ("Velocity"), and RSS. PHX Energy funded capital spending primarily using proceeds on disposition of drilling equipment, cash flows from operating activities, and its credit facilities when required.

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(Stated in thousands of dollars)

	Three-month period ended December 31, 2023	Year ended December 31, 2023
Growth capital expenditures[3]	**7,026**	**34,382**
Maintenance capital expenditures[3] to replace retired assets	**3,066**	**14,609**
Maintenance capital expenditures[3] to replace equipment lost downhole during drilling operations	**5,382**	**15,941**
	15,474	**64,932**
Deduct:		
Proceeds on disposition of drilling equipment	**(10,997)**	**(43,686)**
Net capital expenditures[2]	**4,477**	**21,246**

As at December 31, 2023, the Corporation had capital commitments to purchase drilling and other equipment for $42.7 million, $35.2 million of which is growth capital and includes $20 million for performance drilling motors, $11 million for Velocity systems, and $4.2 million for other equipment. Equipment on order as at December 31, 2023 is expected to be delivered within the first half of 2024.

The Board has approved a preliminary 2024 capital expenditure program of $70 million. Of the 2023 capital expenditure budget, $5 million was not spent in 2023 and will be carried forward into 2024. As a result of this carry over, the Corporation now anticipates spending $75 million in capital expenditures during 2024. Of the total expenditures, $47 million is anticipated to be spent on growth and expected to be allocated towards: building larger fleets of recently commercialized supplementary technologies that create value added capabilities within the premium fleet and are already in high demand; additional motor capacity to grow the Atlas rental division; and add required Velocity systems, RSS and Atlas motors to continue to meet demand for full service operations. The remaining $28 million is anticipated to be spent to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations.

The Corporation currently possesses approximately 741 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8.12", 9.00" and 9.62" Atlas motors, and 115 Velocity systems. The Corporation also possesses the largest independent RSS fleet in North America with 63 RSS tools and the only fleet currently comprised of both the PowerDrive Orbit and iCruise systems.

Sale and Licensed Use of Atlas Motors

In the second and third quarter of 2023, the Corporation agreed upon the sale and licensed use of its Atlas motors to allow an existing US and international client to establish their own fleet. Under these agreements, the purchasers must exclusively use

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components manufactured by the Corporation for the maintenance of their fleets of Atlas motors. For the year ended December 31, 2023, $11 million of motors and parts were sold. PHX Energy anticipates ongoing orders for parts and the purchasers could potentially place subsequent orders for additional Atlas motors in the upcoming year.

About PHX Energy Services Corp.

PHX Energy is a growth-oriented, public oil and natural gas services company. The Corporation, through its directional drilling subsidiary entities provides horizontal and directional drilling services and technologies to oil and natural gas exploration and development companies principally in Canada and the US. In connection with the services it provides, PHX Energy engineers, 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; Midland, Texas; Casper, Wyoming; and Oklahoma City, Oklahoma. Internationally, PHX Energy has sales offices and service facilities in Albania, and an administrative office in Nicosia, Cyprus. The Corporation also supplies technology to the Middle East regions.

As at December 31, 2023, PHX Energy had 920 full-time employees (2022 – 843) and the Corporation utilized over 175 additional field consultants in 2023 (2022 – over 160).

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 (net cash)(2);
- excess cash flow (2);
- the reliability of the Corporation's equipment and ability to provide high quality services in the field;
- market share retention and growth; and,
- health and safety performance targets.

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Industry Activity and Statistics

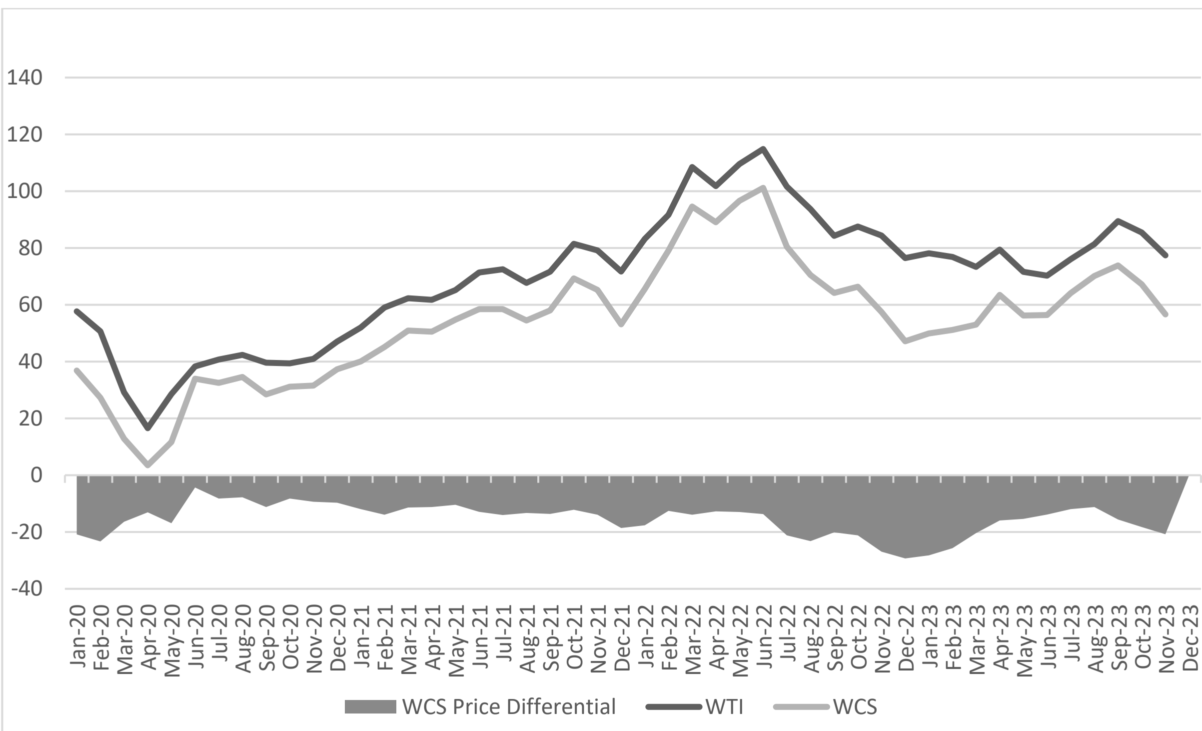
In 2023, commodity price volatilities tempered the North American industry growth seen in the prior year.

Commodity Price Trends

In 2023, commodity prices declined over 2022 and experienced some volatility. The average Western Texas Intermediate ("WTI") price was 18 percent lower in 2023 at approximately USD $78 per barrel for the year (2022 – USD $95). The average price of Western Canadian Select ("WCS") decreased by 21 percent and was USD $60 per barrel in 2023 (2022 – USD $76). The average differential between WTI and WCS was slightly lower compared to the prior year and was USD $17.93 per barrel in 2023 (2022 - $18.78). (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

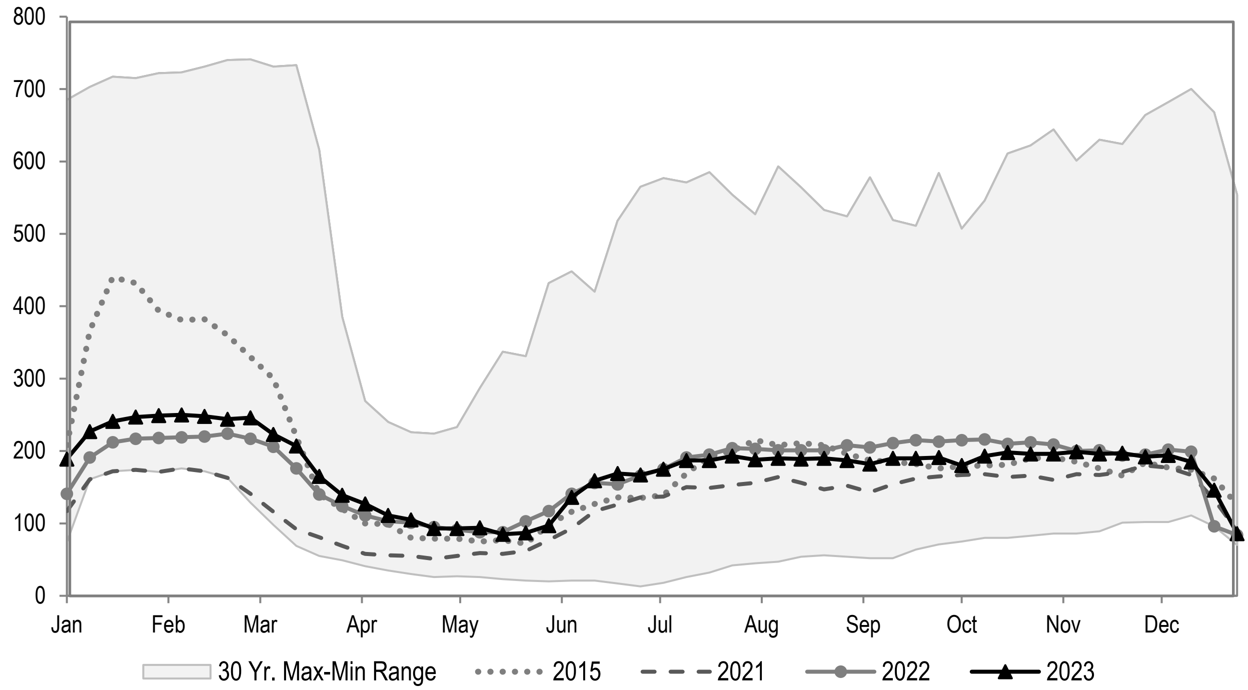


Natural gas commodity prices weakened significantly in 2023. The Henry Hub spot price averaged USD $2.53 per gigajoule in 2023 (2022 – USD $6.45) while AECO-C spot averaged CAD $2.64 per gigajoule in 2023 (2022 – CAD $5.10) (Source: EIA Natural Gas data, https://www.eia.gov/dnav/ng/hist/rngwhhdA.htm; Peters & Co Limited, Energy Update 01-08-2024).

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

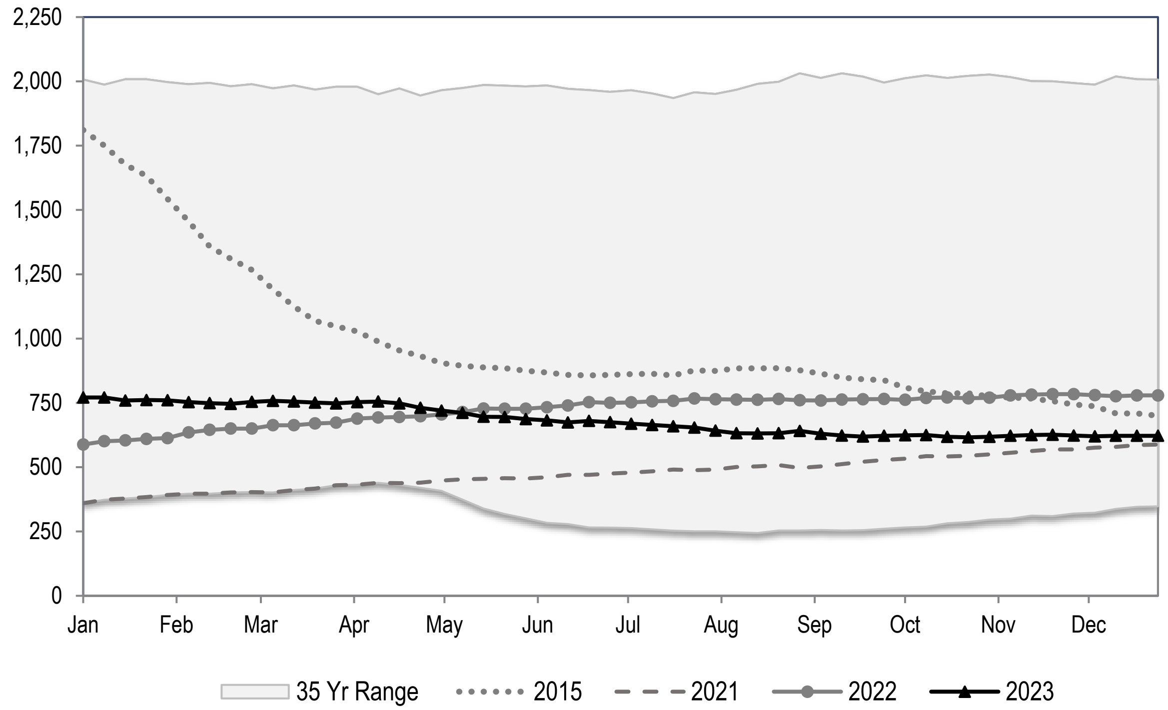


The Canadian market's activity in 2023 was relatively flat compared to the previous year, with an average of 177 active rigs per day. This level of activity is only one percent more than the 175 rigs operating on average in 2022 and is 26 percent greater than the 5-year average of 141 active rigs. Horizontal and directional drilling continues to be the norm in the industry, and combined, horizontal and directional wells represented 98 percent of the total 2023 industry drilling days (2022 – 97 percent). Oil well drilling represented 60 percent of the Canadian industry's average active rig count in 2023 which is slightly higher than the 63 percent in 2022. (Source: Daily Oil Bulletin, hz-dir days 231231 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 declined in 2023, while the Permian basin, which remained the most active area, held steady year-over-year. The average rig count decreased 5 percent annually to 687 rigs operating per day in the 2023-year, as compared to an average of 723 rigs in 2022. Annually there was an average of 335 active rigs (2022 – 335 active rigs) in the Permian basin, approximately half of all the rigs operating nationally. Horizontal and directional drilling continued to represent 97 percent of active rigs (2022 – 96 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, 2023

Revenue

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**154,125**	146,047	6	**598,339**	502,416	19
Motor rental	**10,332**	11,711	(12)	**47,009**	33,329	41
Sale of motor equipment and parts	**875**	-	n.m.	**10,993**	-	n.m.
Total revenue	**165,332**	157,758	5	**656,341**	535,745	23

n.m. – not meaningful

In the three-month period ended December 31, 2023, PHX Energy achieved its third highest level of quarterly revenue in its history, with the third quarter of 2023 being the all-time highest and the first quarter of 2023 being the second. As a result of the record quarterly achievements, the Corporation's consolidated revenue for the 2023-year is the greatest-ever annual revenue in its history. Consolidated revenue in the fourth quarter increased by 5 percent to $165.3 million compared to $157.8 million in the corresponding 2022-quarter and annual consolidated revenue was $656.3 million, an increase of 23 percent compared to $535.7 million in 2022.

In the fourth quarter of 2023, rig counts in both Canada and the US continued to decline. The average number of horizontal and directional rigs operating per day in the US dropped by 19 percent to 608 in the 2023 three-month period from 752 in the corresponding 2022-period. In Canada, the average rig count in the 2023-quarter declined by 3 percent to 181 from 187 in the fourth quarter of 2022 (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 – Current, https://rigcount.bakerhughes.com/na-rig-count). In comparison, PHX Energy's consolidated operating days[3] held relatively steady, only decreasing 3 percent to 7,277 days in the 2023-quarter from 7,509 days in the 2022-quarter. On an annual basis, the Canadian rig count held steady year-over-year whereas the US rig count declined 5 percent year-over-year. For the year-ended December 31, 2023, PHX Energy recorded 29,192 consolidated operating days which is 3 percent more than the 28,368

[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.

days in the 2022-year. The Corporation was able to outpace the industry trends as a result of its strong position as premium technology provider and the increased capacity and utilization of these technologies along with the strength of its marketing and operations teams. Additionally, these strengths also contributed to improvements to the Corporation's average consolidated revenue per day[3] for directional drilling services. In particular, the portion of activity in the US that utilizes RSS services grew especially with the recent addition of a second brand of RSS technology, and the cumulative impact of previous pricing increases. Average consolidated revenue per day for directional drilling services improved by 9 percent to $21,178 in the 2023-quarter (2022-quarter – $19,449) and 17 percent to $20,497 in the 2023-year (2022 – $17,448).

During the 2023-year, PHX Energy expanded its Atlas rental and sales divisions. For the year ended December 31, 2023, revenue generated from the Atlas motor rental division grew by 41 percent to $47 million from $33.3 million in 2022. In the 2023-quarter, Atlas motor rental revenue declined by 12 percent mainly due to the quarter-over-quarter drop in the US industry rig count. In the 2023 twelve-month period, $11 million was generated from the sale of Atlas motors and parts under PHX Energy's two existing sales agreements.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Direct costs	**129,240**	121,906	6	**506,236**	426,107	19
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,056**	8,876	13	**38,861**	32,119	21
Depreciation & amortization right-of-use asset (included in direct costs)	**841**	805	4	**2,898**	3,235	(10)
Gross profit as a percentage of revenue excluding depreciation & amortization [1]	**28%**	29%		**29%**	27%	

Direct costs are comprised of field and shop expenses, costs of motors and parts sold, 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, 2023, direct costs increased by 6 percent to $129.2 million (2022 - $121.9 million) and 19 percent to $506.2 million (2022 - $426.1 million), respectively.

The increase in direct costs in both 2023-periods is mainly due to:

[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.
[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.

- greater servicing costs and equipment rentals associated with higher levels of RSS activity,
- higher volume of motor servicing and related costs associated with increased Atlas motor rental activity,
- addition of the costs of motors and parts sold that were nil in both 2022-periods, and
- rising personnel-related costs.

In addition, the Corporation's depreciation and amortization on drilling and other equipment for the 2023 three and twelve-month period increased by 13 percent and 21 percent, respectively, mainly as a result of the additions to fixed assets throughout 2023.

For the three-month period and year ended December 31, 2023, gross profit as a percentage of revenue excluding depreciation and amortization[1] was 28 percent and 29 percent, respectively, compared to 29 percent and 27 percent in the corresponding 2022-periods. The slight decrease in profitability in the 2023-quarter is partly attributable to lower motor rental activity in the US and increasing equipment rental costs. For the 2023 twelve-month period, greater profitability was largely driven by higher margins from the Corporation's premium technologies and additional profits realized from PHX Energy's growing Atlas motor rental and sales divisions.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Selling, general and administrative ("SG&A") costs	**18,004**	19,365	(7)	**68,915**	68,901	-
Cash-settled share-based compensation (included in SG&A costs)	**4,572**	6,938	(34)	**13,470**	24,568	(45)
Equity-settled share-based compensation (included in SG&A costs)	**60**	58	3	**491**	451	9
SG&A costs excluding share-based compensation as a percentage of revenue[1]	**8%**	8%		**8%**	8%	

For the three-month period and year ended December 31, 2023, SG&A costs were $18 million and $68.9 million, respectively, as compared to $19.4 million and $68.9 million in the corresponding 2022-periods. In the 2023-quarter, the decrease in SG&A costs of 7 percent was mainly due to lower cash-settled share-based compensation expense during the period compared to the 2022-quarter. In the 2023-year, SG&A costs were largely comparable to the prior year as increases in personnel-related costs were offset by decreases in compensation expenses related to cash-settled share-based awards.

Cash-settled share-based compensation relates to the Corporation's retention awards and is measured at fair value. For the three-month period and year ended December 31, 2023, the related compensation expense recognized by PHX Energy was $4.6 million (2022 - $6.9 million) and $13.5 million (2022 - $24.6 million), respectively. Changes in cash-settled share-based

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compensation expense in the 2023-periods were mainly driven by fluctuations in the Corporation's share price, the number of awards granted in the period, and changes in the estimated payout multiplier for performance awards. In 2023, the number of retention awards granted was lower compared to 2022 and the number of units that vested during the 2023-periods was also fewer. There were 2,160,151 retention awards outstanding as at December 31, 2023 (2022 – 2,845,191). SG&A costs excluding share-based compensation as a percentage of revenue[(1)] for the 2023 three and twelve-month periods were 8 percent in both periods, the same level as in both corresponding 2022-periods.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Research and development expense	**1,393**	1,184	18	**5,210**	3,722	40

For the three-month period and year ended December 31, 2023, PHX Energy's research and development ("R&D") expenditures increased to $1.4 million and $5.2 million, respectively, from $1.2 million and $3.7 million in the corresponding 2022-periods. During both 2023-periods, the Corporation's R&D department focused on developing supplementary technologies that would create value added capabilities within PHX Energy's suite of premium fleet. Greater personnel-related costs and prototype expenses were necessary to support these initiatives. The Corporation also remained focused on supporting new and ongoing initiatives aimed at continuously improving the reliability of its equipment and reducing the costs of operations.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Finance expense	**448**	487	(8)	**2,422**	1,360	78
Finance expense lease liabilities	**551**	525	5	**2,245**	2,032	10

Finance expenses mainly relate to interest charges on the Corporation's credit facilities. For the three-month period and year ended December 31, 2023, finance expenses decreased to $0.4 million (2022 - $0.5 million) and increased to $2.4 million (2022 - $1.4 million), respectively. The decrease in finance expenses in the 2023-quarter was primarily due to lower drawings on the credit facilities in the period. In the 2023-year, finance expenses increased mainly due to higher amounts of loans and borrowings in the first part of the year that were used to fund PHX Energy's capital spending, and rising variable interest rates on the Corporation's operating and syndicated facilities.

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Finance expense lease liabilities relate to interest expenses incurred on lease liabilities. For the three and twelve-month periods ended December 31, 2023, finance expense lease liabilities increased to $0.6 million and $2.2 million, respectively (2022 - $0.5 million and $2 million, respectively), primarily due to new premise leases entered in the fourth quarter of 2022 and first quarter of 2023 for a new facility in Midland, Texas and additional head office space in Calgary, Alberta.

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Net gain on disposition of drilling equipment	**7,444**	8,693	**31,347**	19,492
Foreign exchange gains (losses)	**533**	(5)	**1,107**	(287)
Recovery of (provision for) bad debts	**-**	11	**(117)**	13
Other	**-**	-	**-**	512
Other income	**7,977**	8,699	**32,337**	19,730

For the three-month period and year ended December 31, 2023, the Corporation recognized other income of $8 million and $32.3 million, respectively (2022 - $8.7 million and $19.7 million, respectively). In both periods, other income was mainly comprised of net gain on disposition of drilling equipment. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life. Throughout 2023, a larger percentage of PHX Energy's activity involved utilizing premium technologies, particularly RSS in the US. In the 2023-year, more instances of high dollar valued downhole equipment losses occurred as compared to the prior year resulting in a higher net gain on disposition of drilling equipment. In the 2023-quarter, the Corporation's US drilling activity declined by 15 percent leading to fewer instances of high dollar valued downhole equipment losses. 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 capital expenditures(3) in 2024.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Provision for (Recovery of) income taxes	**(9,460)**	2,657	**5,070**	9,042
Effective tax rates (3)	**n.m.**	12%	**5%**	17%

n.m. – not meaningful

For the three-month period and year ended December 31, 2023, the Corporation reported a recovery of income tax of $9.5 million (2022 – provision for income taxes of $2.7 million), and a provision for income taxes of $5.1 million (2022 - $9 million), respectively. Recovery of income taxes in the 2023-quarter and lower provision for income taxes in the 2023-year were primarily attributable to the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction. PHX Energy's

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effective tax rates[3] in the 2023-periods were lower than the combined US federal and state corporate income tax rate of 21 percent and the combined Canadian federal and provincial corporate income tax rate of 23 percent, due to the recognition of previously unrecognized deferred tax assets that were applied to income for tax purposes in Canada.

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

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Operating Results – Continuing Operations						
Earnings	**33,134**	20,333	63	**98,580**	44,311	122
Earnings per share – diluted	**0.68**	0.39	74	**1.96**	0.87	125
Adjusted EBITDA [1]	**35,388**	33,874	4	**150,717**	92,719	63
Adjusted EBITDA per share – diluted [1]	**0.70**	0.66	6	**2.86**	1.83	56
Adjusted EBITDA as a percentage of revenue [1]	**21%**	21%		**23%**	17%	

For the three-month period and year ended December 31, 2023, the Corporation's earnings from continuing operations increased by 63 percent to $33.1 million (2022 - $20.3 million) and more than doubled to $98.6 million (2022 - $44.3 million), respectively. These are the best levels of quarterly and annual earnings achieved in the Corporation's history. Included in the 2023-periods' earnings from continuing operations is $9.5 million in recovery of income taxes that mainly resulted from the recognition and utilization of previously unrecognized deferred tax assets in the Canadian jurisdiction.

In the fourth quarter of 2023, adjusted EBITDA from continuing operations was $35.4 million, a 4 percent increase compared to $33.9 million in the corresponding 2022-quarter. In the 2023-year, adjusted EBITDA from continuing operations increased by 63 percent to $150.7 million, 23 percent of revenue, from $92.7 million, 17 percent of revenue in 2022. Greater profitability achieved in both 2023-periods were primarily driven by higher margins from PHX Energy's premium technologies and additional profits realized from PHX Energy's growing Atlas motor rental and sales divisions.

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[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.

Segmented Information

The Corporation reports three operating segments on a geographical basis throughout the Gulf Coast, Northeast and Rocky Mountain regions of the US; throughout the Western Canadian Sedimentary Basin, and internationally in Albania.

United States

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**111,350**	114,316	(3)	**440,385**	390,881	13
Motor rental	**9,853**	11,377	(13)	**45,145**	32,202	40
Sale of motor equipment and parts	**875**	-	n.m.	**10,993**	-	n.m.
Total US revenue	**122,078**	125,693	(3)	**496,523**	423,083	17
Reportable segment profit before tax	**18,772**	23,643	(21)	**84,225**	64,030	32

n.m. – not meaningful

Despite the continued slowdown in US industry activity in the fourth quarter of 2023, PHX Energy's US operations remained robust and generated revenue of $122.1 million, which is only 3 percent lower than the record $125.7 million generated in the fourth quarter of 2022. With strong revenue generated in all of the quarters in 2023, the Corporation's US division achieved its highest annual revenue for the second consecutive year. US revenue in the 2023 twelve-month period grew by 17 percent to $496.5 million from $423.1 million in the same 2022-period.

In the fourth quarter of 2023, US industry horizontal and directional rig count dropped by 19 percent with an average of 608 active horizontal and directional rigs per day compared to an average of 752 active horizontal and directional rigs per day in the 2022-quarter (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). In comparison, the Corporation's US operating days[3] declined by 15 percent to 4,114 days from 4,843 days in the 2022-quarter. For the year-ended December 31, 2023, US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, decreased by 4 percent to 671 rigs from 698 rigs in 2022 (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). The US segment's operating days were 17,347 in the 2023-year compared to 18,248 in 2022; a decrease of 5 percent.

[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.

Horizontal and directional drilling continued to represent the majority of rigs running on a daily basis during the fourth quarter and year ended 2023. During the 2023-year, Phoenix USA was active in the Permian, Eagle Ford, Scoop/Stack, Marcellus, Utica, Bakken, and Niobrara basins.

Throughout 2023, PHX Energy continued to expand its fleet of premium technologies in the US and in the fourth quarter of the year added a second brand of RSS technology to its fleet. With higher levels of RSS activity and increased capacity and utilization of premium technologies, the US division's average revenue per day(3) for directional drilling services in the 2023-quarter rose to $27,069 from $23,604 in the 2022-quarter, a 15 percent increase. For the year ended December 31, 2023, average revenue per day for directional drilling services grew by 19 percent to $25,387 from $21,420 in 2022. The continuing favorable impact of the US dollar strengthening relative to 2022 also supported the improved average consolidated revenue per day in the 2023 twelve-month period. Omitting the impact of foreign exchange, the average revenue per day for directional drilling services increased by 16 percent in 2023.

In the 2023-year, the Corporation further expanded its Atlas motor rental division and grew its revenue by 40 percent to $45.1 million from $32.2 million in 2022. As US industry activity declined in the 2023-quarter, PHX Energy's US motor rental activity saw a similar trend which contributed to the decrease in US motor rental revenue to $9.9 million from $11.4 million in the 2022-quarter. Despite the slowdown in industry activity, the Corporation sees further growth opportunities for this business line as it provides the ability to penetrate the portion of the US market that is not accessible through its full service offering. With additional Atlas motors expected to be delivered in the first half of 2024, the Corporation plans to dedicate a portion of these motors to the rental fleet to continue the expansion of this division.

In the 2023 three and twelve-month period, PHX Energy's US operations also sold Atlas motor equipment and parts to certain customers and generated $0.9 million and $11 million of revenue from this business line, respectively. As the Corporation continues to support these customers' owned fleet of Atlas motors, a steady stream of revenue is expected to continue in future periods.

For the three-month period ended December 31, 2023, the US segment's reportable segment income before tax decreased by 21 percent to $18.8 million from $23.6 million in the same 2022-period. The decline in the segment's profitability during the 2023-quarter was primarily due to rising personnel-related costs, higher use of rented equipment in its full service operations, and lower drilling and motor rental activity. In the 2023-year, the US segment's reportable segment income before tax improved by 32 percent to $84.2 million from $64 million in 2022. Higher profitability in the 2023-year was primarily driven by greater margins from premium technologies and growth in the rental and sale of Atlas motors.

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(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.

Canada

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Directional drilling services	**41,921**	30,371	38	**153,637**	107,417	43
Motor rental	**479**	334	43	**1,864**	1,127	65
Total Canadian revenue	**42,400**	30,705	38	**155,501**	108,544	43
Reportable segment profit before tax	**5,508**	771	n.m.	**23,337**	8,700	168

n.m. – not meaningful

For the three-month period and year ended December 31, 2023, PHX Energy's Canadian operations generated revenue of $42.4 million (2022 - $30.7 million) and $155.5 million (2022 - $108.5 million), respectively, the highest level of fourth quarter and annual revenue since 2014.

Canadian operating days[(3)] in the 2023 three-month period rose by 21 percent to 3,099 days compared to 2,571 days in the same 2022-quarter. In comparison, industry horizontal and directional drilling activity, as measured by drilling days, declined by 5 percent to 15,895 in the fourth quarter of 2023 from 16,813 in the 2022-quarter (Source: Daily Oil Bulletin, hz-dir days 231231). For the year ended December 31, 2023, there were 59,809 horizontal and directional drilling days realized in the Canadian industry, compared to the 60,276 days realized in 2022, a one percent decrease (Source: Daily Oil Bulletin, hz-dir days 231231). In comparison, drilling activity in the Canadian segment improved by 17 percent from 9,823 operating days in 2022 to 11,526 days in 2023. In both 2023-periods, PHX Energy's Canadian activity far exceeded that of the industry and this was largely driven by the Corporation's successful expansion of its client base. Through the strength of its marketing and operations teams, PHX Energy has maintained a strong reputation as a market leader and is among the top service providers in the industry. During the 2023-year, the Corporation was active in the Duvernay, Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Deadwood, Ellerslie, and Scallion basins.

The increase in the Canadian division's quarterly and annual revenue in the 2023-periods was also supported by improvements in average revenue per day[(3)] for directional drilling services which increased by 15 percent to $13,529 in the 2023-quarter from $11,813 in the corresponding 2022-quarter and increased by 22 percent to $13,330 in the 2023-year from $10,935 in 2022. Higher average per day realized in the 2023-periods mainly resulted from increased deployment of premium technologies, targeted marketing efforts, and cumulative impact of previous pricing increases.

[(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.

As a result of greater activity and improved average revenue per day, PHX Energy's Canadian reportable segment profits grew to $5.5 million in the 2023-quarter (2022 - $0.8 million) and $23.3 million in the 2023-year (2022 - $8.7 million).

International – Continuing Operations

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2023	2022	% Change	**2023**	2022	% Change
Revenue	**854**	1,360	(37)	**4,317**	4,118	5
Reportable segment profit (loss) before tax	**(49)**	631	n.m.	**1,199**	1,412	(15)

n.m. – not meaningful

The Corporation's international segment revenue is comprised of revenue from Albania. For the three-month period and year ended December 31, 2023, the international segment's revenue was $0.9 million (2022-quarter - $1.4 million) and $4.3 million (2022 - $4.1 million), respectively. Albania operations resumed late in the first quarter of 2022 with one rig. In the 2023-quarter, international revenue decreased by 37 percent due to the rig's operation being suspended for two months. Late in the fourth quarter of 2023, a second rig was deployed and in January 2024, Albania operations were active with two rigs.

For the three-month period ended December 31, 2023, the international segment reported a loss before tax of $49 thousand compared to reportable segment profit before tax of $0.6 million in the 2022-period. For the year-ended December 31, 2023, the international segment realized reportable segment profit before tax of $1.2 million as compared to a profit of $1.4 million in the corresponding 2022-year. The decrease in profitability in both 2023-periods was mainly due to the temporary suspension of the rig's operation and rising personnel-related costs.

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 has been presented as discontinued operations.

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

(Stated in thousands of dollars)

	Three-month period ended December 31, 2022	Year ended December 31, 2022
Revenue	-	7,443
Expenses	-	(5,781)
	-	1,662
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	-	(10,561)
Loss on disposition of Phoenix TSR	-	(3,496)
Impairment and other write-offs	-	(1,967)
Loss from discontinued operations	-	(14,362)
Income tax from discontinued operations	-	196
Loss from discontinued operations, net of taxes	-	(14,558)

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**36,754**	8,970	**96,723**	38,338
Funds from operations[2]	**28,167**	25,068	**119,317**	72,482

	Dec. 31, '23	Dec. 31, '22
Working capital[2]	**93,915**	94,339
Net debt (Net cash)[2]	**(8,869)**	4,484

In both the quarter and year ended 2023, cash flow from operating activities increased to $36.8 million and $96.7 million respectively, from $9 million and $38.3 million in the corresponding 2022-periods. For the three-month period and year ended December 31, 2023, funds from operations were $28.2 million and $119.3 million, respectively, as compared to $25.1 million and $72.5 million in the comparable 2022-periods. The increase in cash flow from operating activities and funds from operations in both 2023-periods was mainly driven by the greater levels of profitability achieved during these periods.

[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.

As at December 31, 2023, the Corporation had working capital[2] of $93.9 million, a decrease of $0.4 million from the $94.3 million reported at December 31, 2022. The decrease in working capital at December 31, 2023 was primarily due to lower levels of trade and other receivables. Net cash[2] as at December 31, 2023 was $8.9 million as compared to net debt[2] of $4.5 million at the end of 2022. The Corporation's positive cash position and lower levels of debt at the end of 2023 were mainly due to higher levels of cash flows generated from operations that were used to repay debt during the 2023-periods.

Cash Flow, Dividends, and ROCS

In December 2020, PHX Energy reinstated its quarterly dividend program. In November 2022, PHX Energy's Board approved a refinement of its shareholder return strategy in the form of a Return of Capital Strategy ("ROCS") which will potentially allow up to 70 percent of annual excess cash flow[2] to be used for shareholder returns, including the base dividend program, share buy backs and potential special dividends. The Board will continually review the dividend program and its ROCS and take into consideration, without limitation, the Corporation's financial performance, forecasted activity levels and the industry outlook. 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 does not meet its budgeted cash flow from operating activities, dividends to shareholders may be reduced or suspended entirely.

The Board previously approved a 33 percent increase to the Corporation's quarterly dividend from $0.15 per common share to $0.20 per common share, effective for the dividend payable January 15, 2024, to shareholders of record at the close of business on December 29, 2023. This is the fifth dividend increase since its re-instatement in December 2020, and is a 700 percent increase from the dividend payable on December 31, 2020. For the three-month period and year ended December 31, 2023, dividend payments of $7.3 million and $30.2 million, respectively, were financed from the Corporation's funds from operations[2] (2022 - $5.1 million and $15.1 million, respectively).

During the third quarter of 2023, the TSX approved the renewal of PHX Energy's NCIB to purchase for cancellation, from time-to-time, up to a maximum of 3,552,810 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 2, 2023. The NCIB commenced on August 16, 2023 and will terminate on August 15, 2024. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the previous and current NCIB, 4,032,600 common shares were purchased by the Corporation for $30.4 million and cancelled in the year-ended December 31, 2023.

[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.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2023 was $20.3 million as compared to $47.3 million in 2022. During 2023, the Corporation spent $34.4 million (2022 - $48.5 million) to grow the Corporation's fleet of drilling equipment and $30.6 million (2022 - $25.1 million) was used to maintain capacity in the Corporation's fleet of drilling equipment and replace equipment lost downhole during drilling operations. With proceeds on disposition of drilling and other equipment of $43.7 million (2022 - $27.5 million), the Corporation's net capital expenditures for 2023 were $21.2 million (2022 - $46.1 million).

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Growth capital expenditures[3]	**7,026**	15,252	**34,382**	48,457
Maintenance capital expenditures[3] to replace downhole equipment losses and asset retirements	**8,448**	6,222	**30,550**	25,068
Total capital expenditures[3]	**15,474**	21,474	**64,932**	73,525
Deduct:				
Proceeds on disposition of drilling equipment	**(10,997)**	(12,005)	**(43,686)**	(27,459)
Net capital expenditures[2]	**4,477**	9,469	**21,246**	46,066

The 2023-year capital expenditures comprised of:

- $38.9 million in MWD systems and spare components and RSS;
- $22.9 million in downhole performance drilling motors; and
- $3.1 million in machinery and equipment and other assets.

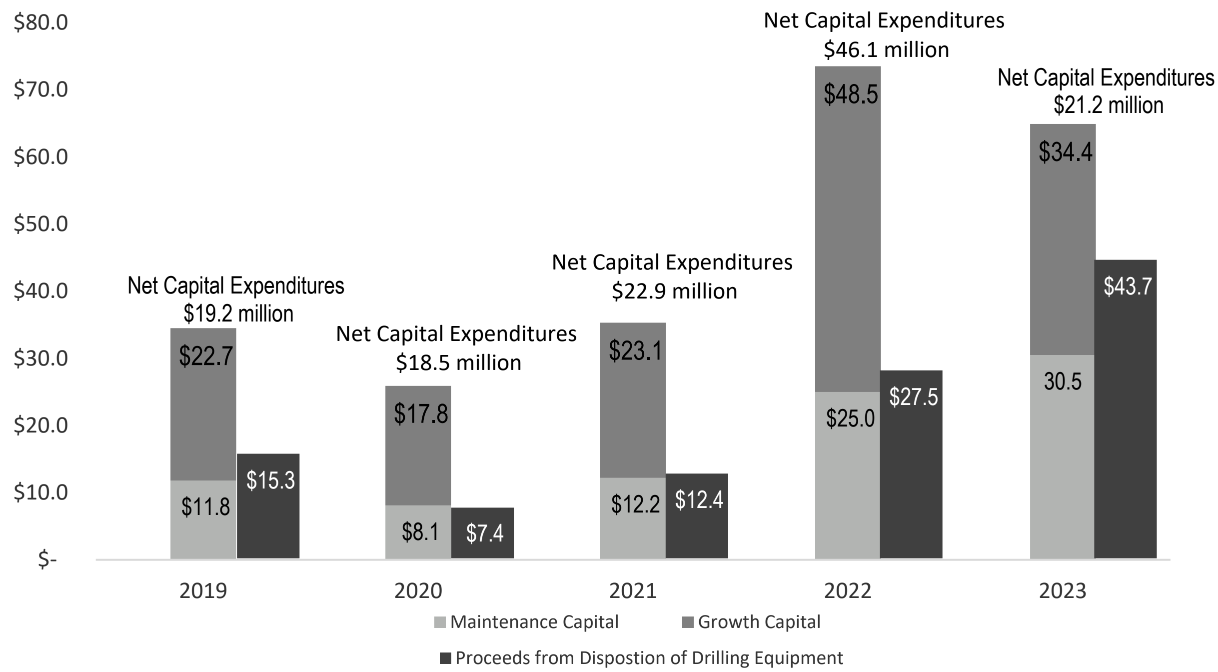
The capital expenditure program undertaken in the year was primarily financed from proceeds on disposition of drilling equipment, cash flows from operating activities, and the Corporation's credit facilities when required.

The change in non-cash working capital balances of $1.7 million (source of cash) relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to $7 thousand in 2022.

(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.

Capital Expenditures

In 2023, the Corporation continued to expand its fleet of high-performance technologies, including its Atlas motors, Velocity systems, and RSS. Capital expenditures[3] in the 2023-year were the second highest in PHX Energy's history, while ending the year in a net cash position.



Financing Activities

For the year ended December 31, 2023, net cash used in financing activities was $77.9 million as compared to $2.7 million in 2022. In the 2023-year:

- dividends of $30.2 million were paid to shareholders;
- 4,032,600 common shares were purchased by the Corporation for $30.4 million and cancelled under the NCIB;
- 114,000 common shares were purchased by an independent trustee in the open market for $0.6 million and held in trust for the use of potential future settlements of retention awards granted under the Corporation's RAP;
- 121,763 common shares were issued from treasury for proceeds of $1 million upon the exercise of share options;

[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.

- payments of $3 million were made towards lease liabilities; and
- $14.7 million net repayments were made towards the Corporation's syndicated credit facility.

Capital Resources

As of December 31, 2023, the Corporation had CAD $7.6 million drawn on its Canadian credit facilities, nothing drawn on its US operating facility, and a cash balance of $16.4 million. As at December 31, 2023, the Corporation had CAD $87 million and USD $20 million available from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets and mature in December 2026.

As at December 31, 2023, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at December 31, 2023**
Debt to covenant EBITDA[i]	<3.0x	**0.05**
Interest coverage ratio[i]	>3.0x	**60.06**

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

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

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures[3] and acquisitions through cash flows from operating activities, proceeds on disposition of drilling equipment, debt and equity. With $5 million carried over from the 2023 capital expenditure budget and the previously approved preliminary 2024 capital expenditure program of $70 million, PHX Energy anticipates spending $75 million of capital expenditures in 2024. Of the total expenditures, $47 million is targeted to be spent on growth and $28 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. The amount expected to be allocated towards replacing equipment lost downhole could increase should more downhole equipment losses occur throughout the year.

[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.

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 2024, 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, 2023, the Corporation has commitments to purchase drilling and other equipment for $42.7 million. Delivery is expected to occur within the first half of 2024.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at December 31, 2023 and 2022.

Proposed Transactions

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

Critical Accounting Estimates and Judgments

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

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

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

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

Climate change policy and ESG culture policies are evolving at regional, national and international levels. Political and economic events may significantly affect the scope and timing of ESG policies and climate change measures. The 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 accounting policies set out below have been applied consistently to all periods presented in the Corporation's consolidated financial statements. The Corporation adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. The amendments require the disclosure of 'material', rather than 'significant', accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the Financial Statements in certain circumstances. The revenue policy has been updated as noted hereafter, due to the growth in the Corporation's other revenue streams during the period and the expectation that the growth in these revenue streams will continue in future periods.

Revenue

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

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

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

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

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

Financial Instruments

Credit Risk

The Corporation held cash and cash equivalents of $16.4 million at December 31, 2023 (2022 – $18.2 million). The cash and cash equivalents are held with financial institution counterparts, which are rated A+, based on S&P Global ratings.

The Corporation is exposed to normal credit risks of its customers that exist within the oil and natural gas exploration and development industry. The Corporation's credit risk associated with these customers can be directly impacted by a decline in economic conditions, which would impair the customers' ability to satisfy their obligations to the Corporation. During the year ended December 31, 2023, one customer comprised 14 percent of the total revenue (2022 - 19 percent of revenue). The customer's revenue is reported within the US operating segment.

As at December 31, 2023, the aging of trade and other receivables that were not impaired was as follows:

(Stated in thousands of dollars)		**2023**
Neither past due nor impaired	**$**	**71,910**
Past due 1-30 days		**36,248**
Past due 31-60 days		**9,414**
Past due 61-90 days		**3,491**
Past due over 90 days		**271**
	$	**121,334**

The Corporation's standard customer payment terms are 30 days after job completion or invoice issuance date, after which, the balance becomes past due. The Corporation will assess for impairment once the receivable becomes past due. All accounts receivable balances that are past due for more than 90 days and were not impaired represented less than one percent or approximately $0.3 million of total receivables on the statement of financial position at December 31, 2023. 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 $0.1 million for all amounts it considers uncollectable at December 31, 2023 (2022 - $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, 2023:

(Stated in thousands of dollars)	2024	2025	2026	2027	2028 and after
Drilling and other equipment purchase commitments	42,724	-	-	-	-
Trade and other payables	100,438	-	-	-	-
Other non-current liabilities	-	3,362	680	-	-
Dividends payable	9,453	-	-	-	-
Bank loan interest and principal (i)	593	549	8,508	-	-
Lease payments (ii)	5,601	5,191	5,378	5,358	4,012
	158,809	9,102	14,566	5,358	4,012

(i) Bank loan interest has been estimated using interest rates in effect at December 31, 2023.
(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 $0.2 million for the year ended December 31, 2023.

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, 2023, foreign currency translation losses of $4.8 million (2022 – $8.8 million gain) that resulted from fluctuations in the CAD-USD exchange rates was recognized in other comprehensive income. In 2022, $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, 2023, foreign exchange gains of $1.1 million (2022 - $0.3 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, 2023	**CAD**	**USD**
Cash and cash equivalents	**-**	**756**
Trade and other payables	**-**	**(2,651)**
Intercompany payables	**(1,948)**	**-**
Statement of financial position exposure	**(1,948)**	**(1,895)**

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

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

	Average Rate		December 31, Close Rate	
	2023	2022	**2023**	2022
USD	**1.3495**	1.3017	**1.3243**	1.3544

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

(Stated in thousands of dollars)

Gain (Loss)	**2023**	2022
CAD (10% strengthening)	**$ (132)**	$ 91
USD (10% strengthening)	**(251)**	(95)

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.sedarplus.ca. 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, Cost Management and Rising Interest Rates

Recently Canada, the US and other countries have experienced high levels of inflation, supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, volatile commodity prices, and additional government intervention through stimulus spending and additional regulations. These factors have increased the operating costs of the Corporation. 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.

In addition, many central banks including the Bank of Canada and US Federal Reserve have taken steps to raise interest rates in an attempt to combat inflation. The increased borrowing costs may impact the Corporation's business plans, which could have a material adverse effect on its financial performance and cash flows. Elevated interest rates could also result in a recession in Canada, the US or other countries. A recession may have a negative impact on demand for crude oil and natural gas, causing a decrease in commodity prices. A decrease in commodity prices could reduce the overall activity level in the industry. It is unknown how long inflation will continue to impact the economies of Canada and the US and how inflation and rising interest rates will impact oil and gas demand and commodity prices.

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 the continuous disclosure of the Corporation 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 for a variety of reasons that are beyond the Corporation and its customers control, including market uncertainties over the supply and demand of these commodities due to the current state of the world economies, actions of the Organization of Petroleum Exporting Countries ("OPEC"), political uncertainties, sanctions imposed on certain oil producing nations by other countries, the Russian Ukrainian war and conflicts in the Middle East, other adverse economic or political development in the

United States, Europe, or Asia. Additionally, the occurrence or threat of terrorist attacks in the United States or other countries could adversely affect the global economy. Commodity prices have historically been, and continue to be, volatile. The Corporation expects this volatility to continue. The Corporation makes activity assumptions based on commodity price assumptions that are used for planning purposes. Accordingly, if commodity prices and consequently industry activity levels are below the expectations, the 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.

Demand for Services – Globally

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

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

Foreign Operations

The Corporation regularly assess its foreign operations risk. Any change in government policies could have a significant impact on business, especially in the US as it represents a large portion of the Corporation's market 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 unfavourable legislation or regulation. There are no assurances that the economic and political conditions in the countries in which the Corporation operates will continue as they are at the present time. While the impact of these factors cannot be accurately predicted, if any of the risks materialize, they could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

US Operations

The majority of Corporation’s operations are conducted in the US, as over the last ten years it has expanded its presence in this market by: (a) increasing sales and marketing initiatives; (b) retaining additional personnel; (c) developing and deploying new technologies that provide competitive advantages in the US market; and (d) increasing the amount of equipment located in the US. As a result, the Corporation is increasingly subject to the prevailing market conditions of the oil and natural gas services industries in the US. The Corporation's reliance on the market for these industries means that it is subject to downturns in the US economy, adverse weather patterns in the US (such as hurricanes and tropical storms), US regulatory changes, protectionist actions by US legislators 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 reduce regulation in many US industries. As a result, the competitive position of the Corporation may become increasingly uncertain and challenging in relation to the US.

Third Party Credit Risk

The Corporation may be exposed to third party credit risk through its contractual arrangements with its customers and other parties. As a result of challenging and often volatile oil and natural gas market conditions and other market factors the Corporation may face heightened counterparty credit risk as a substantial portion of the Corporation’s dealings are with entities involved in the oil and natural gas industry. The Corporation’s credit risk associated with its customers can be directly impacted by a sustained decline in commodity prices and associated economic conditions, which would impair 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.

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 place. 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. The unexpected loss of one or more of the Corporation's key personnel, or the inability to retain or recruit skilled personnel could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. Investors must rely upon the ability, expertise, judgement, discretion, integrity and good faith of the management of the Corporation.

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

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

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

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. Environmental legislation provides for, among other things, the initiation and approval of new oil and natural gas projects, and restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations, and required notification and corrective action measures for incidents. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. New environmental legislation at the federal, state, and provincial levels may increase uncertainty among oil and natural gas industry participants as the new laws are implemented, and the effects of the new rules and standards are felt in the oil and natural gas industry.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material, revocations of permits to conduct business, expenditures for remediation or other corrective measures, and/or claims for liability for property damage, exposure to hazardous materials, exposure to hazardous waste, nuisance or personal injuries. Such claims or sanctions and related costs could cause us to incur substantial costs or losses and could have a material adverse effect on the Corporation's business, financial condition, prospects, and results of operations. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liabilities, 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. The unauthorized discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Some environmental laws and regulations may impose strict liability, joint and several liability, or both. In some situations, the Corporation could be exposed to liability as a result of its conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, third parties without regard to whether the Corporation caused or contributed to the conditions. Although the Corporation believes that it will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Additionally, failure to comply with government, industry or the Corporation's own environmental, health and safety laws and regulations, or failure to comply with the Corporation's compliance or reporting requirements, could tarnish its reputation for safety and quality and have a material adverse effect on its competitive position. In addition, customers maintain their own compliance and reporting requirements, and if the Corporation does not perform in accordance with their requirements, it could lose business from its customers, many of whom have an increased focus on environmental and safety issues.

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 fossil fuel 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, including Canada and the US, have agreed to reduce their carbon emissions in accordance with the Paris Agreement. At the 2021 United Nations Climate Change Conference Canada's Prime Minister Justin Trudeau and US President Joe Biden made several pledges regarding reducing their nation's GHG emissions and at the 2023 United Nations Climate Change Conference both Canada and the US renewed their commitments to transition away from fossil fuels and further cutting emissions. 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 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, 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, in June 2023 the IFRS issued two new international sustainability disclosure standards with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. The Canadian Securities Administrators had previously 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. It is expected that the introduction of the new international standards will instruct how new Canadian sustainability disclosure standards are finalized. The US Securities and Exchange Commission has also proposed extensive climate-related disclosure and ESG rules that are expected to be finalized in 2024.

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, drought, hurricanes, flooding and wildfires may negatively impact the 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 and natural gas. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum and petroleum based products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar affect 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.

Competition

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

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

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, fire; marine cargo insurance; commercial general liability insurance covering third party bodily injury and property damage; 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. In addition, extreme cold weather, heavy snowfall and heavy rainfall may restrict access to areas where the Corporation’s customers' rig sites are located. Seasonal factors and unexpected weather patterns may lead to declines in activity and a corresponding decrease in the demand for the Corporation’s technology or services for a period of time.

Political Uncertainty & Geopolitical Risk

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 the duration of regulatory reviews could impact the Corporation's existing or future operations and plans. Additionally, changes in environmental regulations, assessment processes or other laws, and increasing and expanding stakeholder consultation (including Indigenous stakeholders), may increase the cost of compliance or reduce or delay available business opportunities of both the corporation and its customers and adversely impact the Corporation's results.

Other government and political factors that could adversely affect the Corporation's financial results include increases in taxes and changes in trade policies and agreements. Further, the adoption of regulations mandating efficiency standards, 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, federal and certain provincial governments have been active in recent years in their support for and opposition to major infrastructure projects in Canada leading to investment uncertainty, increased awareness of, and challenges to interprovincial and international infrastructure projects. Disputes and uncertainty over jurisdiction between Canada and the provinces and over the scope of environmental related legislation have created significant barriers to major infrastructure projects in Canada, which has had an adverse impact on the Corporation's customers business plans and consequently could impact industry activity levels.

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

Changing Investor Sentiment

A number of factors, including the concerns of effects of the use of fossil fuels 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 toward investing in the oil and natural gas industry and certain corporations generally. As a result of these concerns, some institutional, retail and public investors have announced that they are no longer willing to fund or invest in oil and natural gas industry properties 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. Although the Corporation in recent years has implemented the policies and practices that it believes meet the requests of institutional investors, there is no assurance that in fact the Corporation's efforts will continue to meet evolving expectations and this may result in such investors reducing their investment in the Corporation, or not investing in the 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 limit 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 and debt levels, operating costs, the ROCS, foreign exchange rates, limits on distributions under the Corporation's credit facility, and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Corporation, the dividend policy and ROCS of the Corporation may change from time-to-time and, future cash dividends could be reduced or suspended entirely.

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

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

Market Price

The trading price of securities of oilfield services issuers is subject to substantial volatility. This volatility is often based on factors both related and unrelated to the financial performance or prospects of the issuers involved. A publicly traded corporation will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors.

In addition, the securities markets have experienced significant market wide and sectoral price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices, current perceptions of the oilfield services industry or oil and natural gas market and worldwide pandemics. Such fluctuations could have a material adverse effect on the market price of the Common Shares. In recent years, the volatility of commodities prices has increased due in part to the implementation of computerized trading and the decrease of discretionary commodity trading. In addition, the volatility, trading volume and share price of issuers have been impacted by increasing investment levels in passive funds that track major indices, as such funds only purchase securities included in such indices. Similarly, the market price of the Common Shares 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 Common Shares will trade cannot be accurately predicted.

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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.

Reputational Risk

The Corporation's business, financial condition, operations or prospects may be negatively impacted by 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 such groups' 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 fossil fuel 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 toward 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. To continue to manage growth effectively, the Corporation will need to continue to implement and improve its operational and financial systems and train and manage, and potentially expand, its employee base. If the Corporation is unable to deal with this growth, it may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Information Technology Systems, Cybersecurity and Social Media

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

Further, the Corporation is subject to a variety of information technology and system risks as a part of its normal course operations including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation’s information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities or the Corporation's competitive position. In addition, cyber phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card and banking details, or approval of wire transfer requests 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 emails to misappropriate information or to introduce viruses or other malware to the Corporation’s computers. 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 cybersecurity 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-attacks through education and training, malicious cyber-activities remain a serious problem that may damage its information technology infrastructure. The Corporation applies technical and process controls in line with industry-accepted standards to protect its information, assets and systems including a written incident response plan for responding to a cybersecurity incident. However, these controls may not adequately prevent cybersecurity breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Corporation's performance and earnings, as well as its reputation, and any damages sustained may not be adequately covered by the Corporation's current insurance coverage, or at all. The significance of any such event is difficult to quantify, 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.

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

Additionally, social media is increasingly used as a vehicle to carry out cyber-attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to gain entry into the Corporation's systems and obtain confidential information. While the Corporation takes steps to alleviate such risks, 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

In the normal course of the Corporation's business, the Corporation may discuss potential business relationships, transactions with third parties, financing solutions or other activities and at which time the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. The Corporation takes commercially reasonable measures to ensure confidentiality agreements are signed by third parties prior to the disclosure of any confidential information or to otherwise ensure the confidentiality of such information is maintained; however, a breach or failure of these measures could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot 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 would be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Corporate Governance

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

Disclosure Controls and Procedures

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

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P. Based on that evaluation, the Certifying Officers have concluded that the Corporation's DC&P were effective as at December 31, 2023.

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, 2023.

There were no changes in the Corporation's ICFR that occurred during the period from January 1, 2023 to December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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

Outstanding Corporation Share Data

	As at February 27, 2024
Common shares outstanding, excluding shares held in trust	47,325,971
Common shares held in trust (i)	3,301
Total common shares outstanding	47,329,272
Dilutive securities:	
Options	932,000
Corporation shares – diluted	48,261,272

(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,	**2023**	2022	2021
Revenue	**656,341**	535,745	339,946
Net earnings	**98,580**	29,753	22,725
Earnings per share - basic	**1.98**	0.59	0.46
Earnings per share - diluted	**1.96**	0.58	0.44
Earnings from continuing operations	**98,580**	44,311	23,318
Earnings from continuing operations per share – basic	**1.98**	0.88	0.47
Earnings from continuing operations per share – diluted	**1.96**	0.87	0.45
Dividends declared per share(3)	**0.65**	0.40	0.15
Loans and borrowings	**7,564**	22,731	-
Net debt (Net cash)(2)	**(8,869)**	4,484	(24,829)
Total assets	**385,494**	375,224	262,494

For the past three years, the Corporation leveraged its financial strength and strategically focused on advanced purchases of drilling equipment to take advantage of the rising demand in the industry while making an effort to avoid resource shortages. As a result of this capital expenditure strategy, PHX Energy's total assets progressively increased from $262.5 million at the end of 2021 to $385.5 million as at December 31, 2023. Global energy demand and commodity pricing have strengthened since 2021 and with additional capacity gained from the acquisitions of drilling equipment, the Corporation generated record annual revenue and earnings in 2022 and 2023. In 2022, revenue increased by 58 percent to $535.7 million from $340 million in 2021 and in 2023, it increased by 23 percent to $656.3 million from 2022. Higher revenue and activity resulted in improved profitability. In 2022, the Corporation's net earnings increased by 31 percent to $30 million from $22.7 million in 2021 while earnings from continuing operations increased by 90 percent to $44.3 million from $23.3 million in 2021. In 2023, net earnings were $98.6 million, three times more compared to $30 million in 2022 while earnings from continuing operations more than doubled to $98.6 million from $44.3 million in 2022. As a result of the higher earnings, the Corporation was able to generate greater cash flows and lower the amounts outstanding on its credit facilities. The Corporation ended the 2023-year with loans and borrowings of $7.6 million and a cash and cash equivalents balance of $16.4 million, resulting to a net cash of $8.9 million.

(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.

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Dec-23	Sep-23	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22	Mar-22
Revenue	**165,332**	169,368	155,618	166,022	157,758	142,418	126,238	109,304
Net earnings (loss)	**33,134**	24,921	18,108	22,417	20,333	13,475	168	(4,223)
Earnings (loss) per share - basic	**0.69**	0.50	0.35	0.44	0.40	0.27	-	(0.09)
Earnings (loss) per share - diluted	**0.68**	0.50	0.35	0.42	0.39	0.27	-	(0.09)
Earnings (loss) from continuing operations	**33,134**	24,921	18,108	22,417	20,333	13,475	12,818	(2,315)
Earnings (loss) from continuing operations per share – basic	**0.69**	0.50	0.35	0.44	0.40	0.27	0.25	(0.05)
Earnings (loss) from continuing operations per share – diluted	**0.68**	0.50	0.35	0.42	0.39	0.27	0.25	(0.05)
Dividends paid	**7,277**	7,621	7,656	7,636	5,078	3,797	3,791	2,482
Cash and cash equivalents	**16,433**	14,845	20,080	15,502	18,247	27,024	17,971	11,284
Loans and borrowings	**7,564**	18,302	27,685	29,847	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,	
	2023	2022	**2023**	2022
Earnings from continuing operations:	**33,134**	20,333	**98,580**	44,311
Add:				
Depreciation and amortization drilling and other equipment	**10,056**	8,876	**38,861**	32,119
Depreciation and amortization right-of-use asset	**841**	805	**2,898**	3,235
Provision for (recovery of) income taxes	**(9,460)**	2,657	**5,070**	9,042
Finance expense	**448**	487	**2,422**	1,360
Finance expense lease liability	**551**	525	**2,245**	2,032
Equity-settled share-based payments	**60**	58	**491**	451
Unrealized foreign exchange loss (gain)	**(242)**	133	**150**	169
Adjusted EBITDA from continuing operations	**35,388**	33,874	**150,717**	92,719

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 10(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. Management believes that this measure 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, how it was taxed in various countries, and without the impact of cash-settled share-based compensation expense that is affected by fluctuations in the Corporation's share price.

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,	
	2023	2022	**2023**	2022
Earnings from continuing operations:	**33,134**	20,333	**98,580**	44,311
Add:				
Depreciation and amortization drilling and other equipment	**10,056**	8,876	**38,861**	32,119
Depreciation and amortization right-of-use asset	**841**	805	**2,898**	3,235
Provision for (recovery of) income taxes	**(9,460)**	2,657	**5,070**	9,042
Finance expense	**448**	487	**2,422**	1,360
Finance expense lease liability	**551**	525	**2,245**	2,032
Equity-settled share-based payments	**60**	58	**491**	451
Unrealized foreign exchange loss	**(242)**	133	**150**	169
Cash-settled share-based compensation expense	**4,572**	6,938	**13,470**	24,568
Adjusted EBITDA from continuing operations excluding cash-settled share-based compensation expense	**39,960**	40,812	**164,187**	117,287

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

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Revenue	**165,332**	157,758	**656,341**	535,745
Direct costs	**129,240**	121,906	**506,236**	426,107
Gross profit	**36,092**	35,852	**150,105**	109,638
Depreciation & amortization drilling and other equipment (included in direct costs)	**10,056**	8,876	**38,861**	32,119
Depreciation & amortization right-of-use asset (included in direct costs)	**841**	805	**2,898**	3,235
	46,989	45,533	**191,864**	144,992
Gross profit as a percentage of revenue excluding depreciation & amortization	**28%**	29%	**29%**	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,	
	2023	2022	**2023**	2022
SG&A Costs	**18,004**	19,365	**68,915**	68,901
Deduct:				
Share-based compensation (included in SG&A)	**4,632**	6,996	**13,961**	25,019
	13,372	12,369	**54,954**	43,882
Revenue	**165,332**	157,758	**656,341**	535,745
SG&A costs excluding share-based compensation as a percentage of revenue	**8%**	8%	**8%**	8%

Capital Management Measures

a) Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**36,754**	8,970	**96,723**	38,338
Add (deduct):				
Changes in non-cash working capital	**(15,467)**	15,851	**5,674**	33,535
Interest paid	**555**	250	**2,061**	841
Income taxes paid (received)	**6,325**	(3)	**14,859**	(232)
Funds from operations	**28,167**	25,068	**119,317**	72,482

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,	
	2023	2022	**2023**	2022
Cash flows from operating activities	**36,754**	8,970	**96,723**	38,338
Add (deduct):				
Changes in non-cash working capital	**(15,467)**	15,851	**5,674**	33,535
Interest paid	**555**	250	**2,061**	841
Income taxes paid (received)	**6,325**	(3)	**14,859**	(232)
Cash payment on leases	**(1,343)**	(1,330)	**(5,258)**	(5,303)
	26,824	23,738	**114,059**	67,179
Proceeds on disposition of drilling equipment	**10,997**	12,005	**43,686**	27,459
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**(8,448)**	(6,222)	**(30,550)**	(25,068)
Net proceeds	**2,549**	5,783	**13,136**	2,391
Growth capital expenditures	**(7,026)**	(15,252)	**(34,382)**	(48,457)
Excess cash flow	**22,347**	14,269	**92,813**	21,113

c) <u>Working Capital</u>

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

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

(Stated in thousands of dollars)

	December 31,	
	2023	2022
Current assets	**207,040**	210,227
Deduct:		
Current liabilities	**(113,125)**	(115,888)
Working capital	**93,915**	94,339

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)

	December 31,	
	2023	2022
Loans and borrowings	**7,564**	22,731
Deduct:		
Cash and cash equivalents	**(16,433)**	(18,247)
Net debt (Net cash)	**(8,869)**	4,484

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,	
	2023	2022	**2023**	2022
Growth capital expenditures	**7,026**	15,252	**34,382**	48,457
Maintenance capital expenditures to replace downhole equipment losses and asset retirements	**8,448**	6,222	**30,550**	25,068
Total capital expenditures	**15,474**	21,474	**64,932**	73,525
Deduct:				
Proceeds on disposition of drilling equipment	**(10,997)**	(12,005)	**(43,686)**	(27,459)
Net capital expenditures	**4,477**	9,469	**21,246**	46,066

f) Remaining Distributable Balance under ROCS

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

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

(Stated in thousands of dollars)

	Year ended December 31, 2023
Excess cash flow	**92,813**
70% of excess cash flow	**64,969**
Deduct:	
Repurchase of shares under the NCIB	**(30,366)**
Dividends paid to shareholders	**(30,189)**
Remaining Distributable Balance under ROCS	**4,414**

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 10(b) in the Notes to the Consolidated Financial Statements.

Definitions

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

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

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

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

Cautionary Statement Regarding Forward-Looking Information and Statements

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "could", "should", "can", "believe", "plans", "intends", "strategy" 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 intention to carry forward the remaining distributable cash under its 2023 ROCS into 2024 and the targeted use to be future NCIB purchases;
- The Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through its dividend program, the ROCS program and NCIB;

- PHX Energy's intentions with respect to the NCIB and purchases thereunder and the effects of repurchases under the NCIB;
- The anticipated 2024 capital expenditure budget of $75 million, which includes $5 million from the 2023 capital expenditure budget that was carried forward. Of the total expenditures, $47 million is anticipated to be spent on growth and are expected to be allocated towards: building larger fleets of recently commercialized supplementary technologies that create value added capabilities within the premium fleet and are already in high demand; additional motor capacity to grow the Atlas rental division; and add required Velocity systems, RSS and Atlas motors to continue to meet demand for full service operations. The remaining $28 million is anticipated to be spent to maintain capacity in the fleet of drilling and other equipment and replace equipment lost downhole during drilling operations.
- The expectation that that equipment on order as part of the capital commitments as at December 31, 2023 will be delivered within the first half of 2024.
- The outlook related to the Corporation's activity in the upcoming year and industry rig counts.
- The anticipation that the Atlas sales business will continue to generate a steady stream of revenue from the ongoing orders for parts under the current sales agreements and the potential that the purchasers may place subsequent orders for additional Atlas motors in 2024.
- The further growth opportunities the Corporation sees for the Atlas motor rental business as it provides the ability to penetrate the portion of the US market that is not accessible through its full service offering. With additional Atlas motors expected to be delivered within the first half of 2024, the Corporation plans to dedicate a portion of these motors to the rental fleet to continue the expansion of this division.
- The possibility that the maintenance capital amount could increase throughout the year should there be more downhole equipment losses than forecasted and that these increases would likely be funded by proceeds on disposition of drilling equipment.
- The planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary.

The above are stated under the headings: "Year End Highlights", "Overall Performance", "Dividends and ROCS", "Capital Spending", "Sale and Licensed Use Of Atlas Motors", "Segmented Information", "Liquidity", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Dividends and ROCS", "Cash Flow and Dividends", "Sale and Licensed Use Of Atlas Motors", "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 2024 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 potential impact of pandemics, the Russian-Ukrainian war, Middle-East conflict and other world events on the global economy, specifically trade, manufacturing, supply chain, inflation and energy consumption, among other things and the resulting impact on the Corporation's operations and future results which remain uncertain; exchange and interest rates, and inflationary pressures including the potential for further interest rate hikes by global central banks and the impact on financing charges and foreign exchange and the anticipated global economic response to concerted interest rate hikes; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, 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.sedarplus.ca) or at the Corporation's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel 403-691-8000
Fax 403-691-8008
www.kpmg.ca

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, 2023 and December 31, 2022
- 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 material accounting policy information

(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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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.

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, 2023. 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 matters described below to be the key audit matters to be communicated in our auditor's report.

Directional drilling and motor rental revenue

Description of the matter

We draw your attention to note 3 and note 12 to the financial statements. The Entity primarily generates revenue from the provision of directional drilling services whereby the client is charged a flat day rate for each day the rig requires directional drilling services. Directional drilling revenue is recognized daily, over a period of time as services have been provided. Motor rental revenue is recognized based on the number of hours the motor was used in drilling operations and the rate for that equipment. Directional drilling and motor rental revenue during the year ended December 31, 2023 was $645.3 million.

Why the matter is a key audit matter

We identified directional drilling and motor rental revenue as a key audit matter. Significant auditor attention was required in evaluating the results of our audit procedures due to the magnitude and overall significance of directional drilling and motor rental revenue transactions to the financial statements.

How the matter was addressed in the audit

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

- We evaluated the design and tested the operating effectiveness of certain controls over directional drilling and motor rental revenue
- We agreed a sample of the amounts recognized as directional drilling or motor rental revenue transactions during 2023 to supporting documentation to verify the amount and the point in time when the services or motor rental hours were provided
- We assessed the timing of revenue recognized by agreeing a sample of directional drilling and motor rental revenue transactions before and after December 31, 2023 to supporting documentation to verify the revenue was recognized in the appropriate period

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 entitled "2023 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 and the information, other than the financial statements and the auditor's report thereon, included in a document entitled "2023 Annual Report" 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.

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 Accounting Standards as issued by the International Accounting Standards Board, 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 27, 2024

Consolidated Statements of Financial Position

(Stated in thousands of dollars)	**December 31, 2023**	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 16,433**	$ 18,247
Trade and other receivables (Note 18a)	**121,334**	125,836
Inventories (Note 4)	**63,173**	63,120
Prepaid expenses	**2,409**	3,024
Current tax assets	**3,691**	-
Total current assets	**207,040**	210,227
Non-current assets:		
Drilling and other long-term assets (Note 5)	**128,263**	115,945
Right-of-use asset (Note 20)	**27,056**	29,336
Intangible assets (Note 6)	**14,200**	15,668
Investments (Note 7)	**3,001**	3,001
Other long-term assets	**1,284**	993
Deferred tax assets (Note 9)	**4,650**	54
Total non-current assets	**178,454**	164,997
Total assets	**$ 385,494**	$ 375,224
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	**$ 100,438**	$ 104,689
Dividends payable (Note 10e)	**9,453**	7,636
Lease liability (Note 20)	**3,234**	2,907
Current tax liabilities	**-**	656
Total current liabilities	**113,125**	115,888
Non-current liabilities:		
Lease liability (Note 20)	**33,972**	36,768
Loans and borrowings (Note 8)	**7,564**	22,731
Deferred tax liability (Note 9)	**16,822**	18,497
Other (Note 11b)	**4,042**	4,462
Total non-current liabilities	**62,400**	82,458
Equity:		
Share capital (Note 10a)	**222,653**	251,345
Contributed surplus	**7,168**	7,044
Deficit	**(45,695)**	(112,121)
Accumulated other comprehensive income	**25,843**	30,610
Total equity	**209,969**	176,878
Total liabilities and equity	**$ 385,494**	$ 375,224

See accompanying notes to consolidated financial statements, commitments (Note 5c)

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

(Stated in thousands of dollars except earnings per share)

Years ended December 31,		2023		2022
Revenue (Note 12)	$	**656,341**	$	535,745
Direct costs (Note 13)		**506,236**		426,107
Gross profit		**150,105**		109,638
Expenses:				
Selling, general and administrative expenses (Note 13)		**68,915**		68,901
Research and development expenses (Note 13)		**5,210**		3,722
Finance expense		**2,422**		1,360
Finance expense lease liability (Note 20c)		**2,245**		2,032
Other income (Note 14)		**(32,337)**		(19,730)
		46,455		56,285
Earnings from continuing operations before income taxes		**103,650**		53,353
Provision for (recovery of) income taxes (Note 15)				
Current		**10,435**		760
Deferred		**(5,365)**		8,282
		5,070		9,042
Earnings from continuing operations		**98,580**		44,311
Discontinued operations (Note 23)				
Net loss from discontinued operations, net of taxes		**-**		(14,558)
Net earnings		**98,580**		29,753
Other comprehensive income (loss)				
Foreign currency translation (Note 18e)		**(4,767)**		8,820
Reclassification of foreign currency translation loss on disposition		**-**		10,561
Total comprehensive earnings	$	**93,813**	$	49,134
Earnings per share – basic (Note 10d)				
Continuing operations	$	**1.98**	$	0.88
Discontinued operations	$	**-**	$	(0.29)
Net earnings	$	**1.98**	$	0.59
Earnings per share – diluted (Note 10d)				
Continuing operations	$	**1.96**	$	0.87
Discontinued operations	$	**-**	$	(0.29)
Net earnings	$	**1.96**	$	0.58

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

(Stated in thousands of dollars except share capital numbers)

Year Ended December 31, 2023	**Share Capital Number**		**Share Capital Amount ($)**		**Contributed Surplus**		**Accumulated Other Comprehensive Income**		**Deficit**		**Total Equity**
Balance, December 31, 2022	**50,896,175**	**$**	**251,345**	**$**	**7,044**	**$**	**30,610**	**$**	**(112,121)**	**$**	**176,878**
Issuance of share capital on exercise of options (Note 10a)	**389,134**		**964**		**-**		**-**		**-**		**964**
Issuance of share capital from trust on settlement of retention awards (Note 10a)	**121,763**		**955**		**-**		**-**		**-**		**955**
Common shares purchased and held in trust (Note 10a)	**(114,000)**		**(612)**		**-**		**-**		**-**		**(612)**
Common shares purchased and cancelled (Note 10f)	**(4,032,600)**		**(30,366)**		**-**		**-**		**-**		**(30,366)**
Share-based payments	**-**		**-**		**491**		**-**		**-**		**491**
Fair value of options exercised	**-**		**367**		**(367)**		**-**		**-**		**-**
Net earnings	**-**		**-**		**-**		**-**		**98,580**		**98,580**
Foreign currency translation, net of tax	**-**		**-**		**-**		**(4,767)**		**-**		**(4,767)**
Dividends	**-**		**-**		**-**		**-**		**(32,154)**		**(32,154)**
Balance, December 31, 2023	**47,260,472**	**$**	**222,653**	**$**	**7,168**	**$**	**25,843**	**$**	**(45,695)**	**$**	**209,969**

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	$	9,462	$	11,229	$	(121,722)	$	134,432
Issuance of share capital on exercise of options (Note 10a)	1,266,038		2,504		-		-		-		2,504
Issuance of share capital from trust on settlement of retention awards (Note 10a)	2,277,875		14,619		-		-		-		14,619
Common shares purchased and held in trust (Note 10a)	(626,400)		(4,110)		-		-		-		(4,110)
Share-based payments	-		-		451		-		-		451
Fair value of options exercised	-		2,869		(2,869)		-		-		-
Net earnings	-		-		-		-		29,753		29,753
Foreign currency translation, net of tax	-		-		-		8,820		-		8,820
Reclassification of foreign currency translation loss on disposition (Note 23)	-		-		-		10,561		-		10,561
Dividends	-		-		-		-		(20,152)		(20,152)
Balance, December 31, 2022	50,896,175	$	251,345	$	7,044	$	30,610	$	(112,121)	$	176,878

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Stated in thousands of dollars)

Years ended December 31,		2023		2022
Cash flows from operating activities:				
Earnings from continuing operations	$	**98,580**	$	44,311
Adjustments for:				
Depreciation and amortization (Note 13)		**38,861**		32,119
Depreciation and amortization right-of-use asset (Note 13)		**2,898**		3,235
Provision for income taxes (Note 15)		**5,070**		9,042
Unrealized foreign exchange loss		**150**		169
Net gain on disposition of drilling equipment (Note 14)		**(31,347)**		(19,492)
Equity-settled share-based payments (Note 11a)		**491**		451
Finance expense		**2,422**		1,360
Finance expense lease liability		**2,245**		2,032
Provision for (recovery of) bad debts (Note 14)		**117**		(13)
Provision for inventory obsolescence (Note 4 and Note 13)		**2,075**		1,299
Interest paid on lease liabilities (Note 20c)		**(2,245)**		(2,032)
Interest paid		**(2,061)**		(841)
Income taxes (paid) received		**(14,859)**		232
Change in non-cash working capital (Note 17)		**(5,674)**		(33,534)
Continuing operations		**96,723**		38,338
Discontinued operations (Note 23)		**-**		(1,255)
Net cash from operating activities		**96,723**		37,083
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment		**43,686**		27,459
Acquisition of drilling and other equipment (Note 5b)		**(64,932)**		(73,525)
Acquisition of intangible assets (Note 6)		**(686)**		(1,261)
Change in non-cash working capital (Note 17)		**1,670**		7
Continuing operations		**(20,262)**		(47,320)
Discontinued operations (Note 23)		**-**		(68)
Net cash used in investing activities		**(20,262)**		(47,388)
Cash flows from financing activities:				
Repurchase of shares under the NCIB (Note 10f)		**(30,366)**		-
Dividends paid to shareholders		**(30,189)**		(15,148)
Net proceeds on (net repayment of) loans and borrowings (Note 8b)		**(14,731)**		22,731
Payments of lease liability		**(3,013)**		(3,271)
Purchase of shares held in trust (Note 10a)		**(612)**		(4,110)
Proceeds from exercise of options		**964**		2,504
Continuing operations		**(77,947)**		2,706
Discontinued operations		**-**		-
Net cash from (used in) financing activities		**(77,947)**		2,706
Net decrease in cash and cash equivalents		**(1,486)**		(7,599)
Cash and cash equivalents, beginning of year		**18,247**		24,829
Effect of movements in exchange rates on cash held		**(328)**		1,017
Cash and cash equivalents, end of year	$	**16,433**	$	18,247

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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, rents performance drilling motors, and sells motor equipment and parts to oil and natural gas exploration and development companies in Canada, United States, Albania and the Middle East regions. The Corporation also develops and manufactures technologies that are made available for internal operational use.

The 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 for the comparative period (see Note 23).

2. Basis of Preparation

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board. Details of the Corporation’s material 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 27, 2024.

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 thousands of Canadian dollars ("CAD"), which is the Corporation's functional currency, unless otherwise stated.

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;
- 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. Material Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The Corporation adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. The amendments require the disclosure of 'material', rather than 'significant', accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in Note 3 in certain circumstances.

a) Basis of Consolidation

i. 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.

ii. 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.

iii. Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated.

iv. 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.

v. 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 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.

ii. 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.

iii. 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 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 7). 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.

iv. 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

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 either, shares held in trust and are presented in the shares held in trust reserve for future settlement of retention award liability, or are repurchased and cancelled under the Normal Course Issuance Bid ("NCIB"). When shares held in trust are reissued to settle retention award liabilities, the amount of liabilities settled is recognized as an increase in equity.

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. 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 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

i. 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.

ii. 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.

iii. 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.

iv. 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
Development costs	10 to 15 years

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

f) 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.

g) 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.

h) Revenue

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

The Corporation primarily generates revenue from the provision of directional drilling services whereby the client is charged a flat day rate for each day the rig requires directional drilling services. The day rate includes personnel assistance as well as use of equipment. The Corporation recognizes revenue daily based on the daily drilling rate. The Corporation's performance obligation is the bundling of its services relating to directional drilling activities, which distinctly benefit the client each day of active drilling. The Corporation recognizes this benefit to revenue daily, over a period of time, as services have been provided. An invoice is sent to the client upon completion of the well, also revenues are accrued based on daily services provided at period end.
Instances where there are equipment failures or delays, a sales credit will be issued upon review with the client. The Corporation will accrue a sales credit when it is highly probable that a sales credit will be issued.

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

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

i) 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.

j) 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.

k) 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.

l) 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. Operating segments are determined based on geographical location. 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, 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.

m) 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.

n) Changes in Material Accounting Policies

i. Global Minimum Top-up Tax

The Corporation has adopted International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) upon their release on May 23, 2023. The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure. The mandatory exception applies retrospectively. However, because no new legislation to implement the top-up tax was enacted or substantively enacted at December 31, 2023 in any jurisdiction in which the Corporation operates and no related deferred tax was recognised at that date, the retrospective application has no impact on the Corporation's consolidated financial statements.

o) Accounting Standards Issued But Not Yet Effective

A number of new accounting standards are effective for annual periods beginning after January 1, 2023 and earlier application is permitted. The following new and amended accounting standards are not expected to have a significant impact on the Group's consolidated financial statements.

- *Classification of Liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1)*
- *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*

4. Inventories

Inventories are mainly comprised of drilling and other equipment repair parts, and motor equipment and parts for sale. In 2023, consumed repair parts and the cost of motor equipment and parts sold were $72.8 million (2022 - $49.7 million) and $4.3 million (2022 – nil), respectively (Note 13). These amounts were included in direct costs. For the year ended December 31, 2023, the Corporation recognized a provision for obsolete inventory of $2.1 million (2022 - $1.3 million).

(Stated in thousands of dollars)

At December 31,	**2023**	2022
Raw materials	**1,009**	1,019
Work in process	**3,388**	5,399
Spare parts and consumables	**58,776**	56,702
	63,173	63,120

5. 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, 2023, management determined no indicators of impairment existed.

b) Acquisitions and Disposals

Assets with a carrying amount of $12.3 million (2022 - $8 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $31.3 million (2022 - $19.5 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, 2023	**346,477**	**20,797**	**19,477**	**1,361**	**388,112**
Additions	**61,820**	**2,191**	**652**	**269**	**64,932**
Disposals	**(31,003)**	**-**	**(416)**	**(108)**	**(31,527)**
Effect of movement in exchange rate	**(7,360)**	**(273)**	**207**	**459**	**(6,967)**
At December 31, 2023	**369,934**	**22,715**	**19,920**	**1,981**	**414,550**
Accumulated Depreciation					
At January 1, 2023	**236,939**	**17,986**	**16,215**	**1,027**	**272,167**
Depreciation	**34,321**	**1,361**	**897**	**220**	**36,799**
Disposals	**(18,665)**	**-**	**(416)**	**(108)**	**(19,189)**
Effect of movement in exchange rate	**(4,008)**	**(214)**	**265**	**467**	**(3,490)**
At December 31, 2023	**248,587**	**19,133**	**16,961**	**1,606**	**286,287**
Carrying amount at December 31, 2023	**121,347**	**3,582**	**2,959**	**375**	**128,263**

(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

c) Capital Commitments

As at December 31, 2023, the Corporation has entered into commitments to purchase drilling and other equipment for $42.7 million (2022 - $43.3 million); delivery is expected to occur within the first half of 2024.

6. 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. Development costs relate mainly to prototype expenses incurred in the development of new technologies.

(Stated in thousands of dollars)

	License	**Development Costs**	**Systems/ Software**	**Technology**	**Total**
Cost					
At January 1, 2023	**29,282**	**2,643**	**1,970**	**1,826**	**35,721**
Additions	**-**	**686**	**-**	**-**	**686**
Disposals	**(1,923)**	**(2,643)**	**(1,970)**	**(1,826)**	**(8,362)**
Effect of movement in exchange rate	**(141)**	**-**	**-**	**-**	**(141)**
At December 31, 2023	**27,218**	**686**	**-**	**-**	**27,904**
Accumulated Amortization					
At January 1, 2023	**13,614**	**2,643**	**1,970**	**1,826**	**20,053**
Amortization	**2,064**	**-**	**-**	**-**	**2,064**
Disposals	**(1,923)**	**(2,643)**	**(1,970)**	**(1,826)**	**(8,362)**
Effect of movement in exchange rate	**(51)**	**-**	**-**	**-**	**(51)**
At December 31, 2023	**13,704**	**-**	**-**	**-**	**13,704**
Carrying amount at December 31, 2023	**13,514**	**686**	**-**	**-**	**14,200**

(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

7. 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.

8. Loans and Borrowings

a) Terms and Covenants

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at December 31, 2023**	Currency	Carrying Amount at December 31, 2022
Operating Facility	CAD	15,000	December 12, 2026	CAD	**-**	CAD	731
Syndicated Facility	CAD	80,000	December 12, 2026	CAD	**7,564**	CAD	22,000
Total CAD Facility	CAD	**95,000**		CAD	**7,564**	CAD	22,731
US Operating Facility	USD	20,000	December 12, 2026	USD	**-**	USD	-
Total USD Facility	USD	**20,000**		USD	**-**	USD	**-**

The carrying amount of loans and borrowings is presented net of borrowing costs amounting to $0.4 million at December 31, 2023. Under the syndicated credit agreement, the Corporation is required to maintain certain financial covenants. As at December 31, 2023 the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at December 31, 2023**
Debt to covenant EBITDA	<3.0x	**0.05**
Interest coverage ratio	>3.0x	**60.06**

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

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

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 one percent. Interest on the syndicated facility is at the Canadian Overnight Repo Rate Average ("CORRA") plus two percent.

On November 3, 2023, the Corporation extended the maturity date of the syndicated loan agreement to December 12, 2026. As at December 31, 2023 the Corporation has CAD $87 million and USD $20 million available to be drawn from its credit facilities with a borrowing base limited to $170 million. The credit facilities are secured by substantially all of the Corporation's assets.

b) Reconciliation of Movements of Liabilities to Cash Flows Arising from Financing Activities

(Stated in thousands of dollars)

	CAD Operating Facility	CAD Syndicated Facility	USD Operating Facility
Balance at January 1, 2023	**731**	**22,000**	**-**
Proceeds from loans and borrowings	**-**	**16,500**	**10,000**
Repayment of borrowings	**-**	**(30,500)**	**(10,000)**
Change in operating facility	**(731)**	**-**	**-**
Borrowing costs	**-**	**(436)**	**-**
Balance at December 31, 2023	**-**	**7,564**	**-**

(Stated in thousands of dollars)

	CAD Operating Facility	CAD Syndicated Facility	USD Operating Facility
Balance at January 1, 2022	-	-	-
Proceeds from loans and borrowings	-	29,000	-
Repayment of borrowings	-	(7,000)	-
Change in operating facility	731	-	-
Balance at December 31, 2022	731	22,000	-

9. Deferred Tax Assets and Liabilities

a) Unrecognized Deferred Tax Assets and Liabilities

(Stated in thousands of dollars)

	2023		2022	
	Gross Amount	**Tax Effect**	Gross Amount	Tax Effect
Investment tax credit / foreign tax credit	**$ -**	**$ 1,592**	$ -	$ 4,631
Non-capital income tax losses	**437**	**100**	55,145	12,228
Drilling and other equipment	**-**	**-**	1,979	455
Intangibles	**-**	**-**	1,961	451
Other	**-**	**-**	6,955	1,600
	$ 437	**$ 1,692**	$ 66,040	$ 19,365

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 foreign tax losses and foreign tax credits 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 2028. The foreign tax credits will expire between 2026 and 2040.

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,		**2023**		2022
Deferred income tax assets:				
Lease liability	**$**	**8,756**	$	9,348
Other (including foreign and other tax credits)		**6,178**		1,594
Non-capital income tax losses		**2,619**		255
Intangibles		**1,329**		-
Drilling and other equipment		**208**		-
	$	**19,090**	$	11,197
Deferred income tax liabilities:				
Drilling and other equipment	**$**	**(21,178)**	$	(20,756)
Right-of-use asset		**(6,377)**		(6,924)
Partnership income		**(2,765)**		(1,115)
Intangibles		**(942)**		(845)
		(31,262)		(29,640)
Net deferred income tax liability	**$**	**(12,172)**	$	(18,443)

Non-capital income tax losses expire between 2024 and 2043. 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 earnings.

(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, 2023	**(20,755)**	**(6,924)**	**(845)**	**-**	**(1,115)**	**255**	**9,348**	**1,593**	**(18,443)**
Recognized in profit	**(349)**	**501**	**1,226**	**-**	**(1,657)**	**2,365**	**(531)**	**3,809**	**5,364**
Recognized in OCI	**136**	**45**	**6**	**-**	**7**	**(2)**	**(61)**	**(10)**	**121**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**786**	**786**
At December 31, 2023	**(20,968)**	**(6,378)**	**387**	**-**	**(2,765)**	**2,618**	**8,756**	**6,178**	**(12,172)**

(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)

10. Share Capital

a) Authorized and Issued Shares

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

(Stated in thousands of dollars except common shares outstanding)

	Number		Amount
Balance as at January 1, 2022	47,978,662	$	235,463
Common shares repurchased and held in trust (Note 11b)	(626,400)		(4,110)
Issued shares pursuant to retention awards plan	2,277,875		14,619
Issued shares pursuant to share option plan	1,266,038		5,373
Balance as at December 31, 2022	50,896,175	$	251,345
Common shares repurchased and cancelled (Note 10f)	**(4,032,600)**		**(30,366)**
Common shares repurchased and held in trust (Note 11b)	**(114,000)**		**(612)**
Issued shares pursuant to retention awards plan	**121,763**		**955**
Issued shares pursuant to share option plan	**389,134**		**1,331**
Balance as at December 31, 2023	**47,260,472**	**$**	**222,653**

b) Weighted-Average Number of Shares

(Stated in thousands of dollars except common shares outstanding)

	2023	2022
Issued common shares at January 1,	**50,896,175**	47,978,662
Effect of shares issued from trust	**93,472**	1,675,359
Effect of share options exercised	**189,162**	869,947
Effect of shares pursuant to shares purchased and held in trust	**(90,199)**	(379,634)
Effect of shares pursuant to Normal Course Issuer Bid	**(1,344,200)**	-
Weighted-average number of common shares (basic) at December 31,	**49,744,410**	50,144,334
Effect of share options	**374,140**	554,916
Effect of retention awards	**2,590,004**	-
Weighted-average number of common shares (diluted) at December 31,	**52,708,554**	50,699,250

c) Reconciliation of Earnings to Diluted Earnings

(Stated in thousands of dollars)

	2023	2022
Earnings from continuing operations	**98,580**	44,311
Effect of retention awards	**4,697**	-
Diluted earnings from continuing operations	**103,277**	44,311

d) Basic and Diluted Earnings (Loss) per Share

(Stated in thousands of dollars except share capital numbers)

2023	**Earnings (numerator)**	**Shares (denominator)**	**Per Share Amount**
Net earnings:			
Basic earnings per share:	**$ 98,580**	**49,744,410**	**$ 1.98**
Diluted earnings per share:	**$ 103,277**	**52,708,554**	**$ 1.96**

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

The Corporation realized profits in both the year ended December 31, 2023 and 2022. The number of options which had a dilutive effect is 994,200 for the year ended December 31, 2023 (2022 – 1,133,334).

As at December 31, 2023, retention awards of 2,590,004 were included in the dilutive calculation. At December 2022, retention awards of 2,845,191 were excluded from the diluted weighted average number of ordinary shares calculation because the effect would have been anti-dilutive.

e) Dividends

For the year ended December 31, 2023, the Corporation paid an aggregate of $0.60 per share or $30.2 million, relating to dividends declared in the last quarter of 2022 and the first three quarters of 2023.

On December 15, 2023, the Corporation declared a dividend of $0.20 per share or $9.5 million, payable on January 15, 2024 to shareholders of record on December 29, 2023.

f) Normal Course Issuer Bid ("NCIB")

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

Pursuant to the previous and current NCIB, 4,032,600 common shares were purchased by the Corporation for $30.4 million and cancelled for the year ended December 31, 2023. No shares were repurchased and cancelled under the previous NCIB during 2022.

11. 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 2023

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

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

During 2023, the Corporation recognized a total compensation expense of $0.5 million (2022 - $0.5 million) for share options granted between 2021 and 2023. 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, is presented below:

	2023		2022	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of year	**1,133,334**	**$ 3.31**	2,854,200	$ 3.15
Granted	**250,000**	**7.91**	250,000	6.11
Exercised	**(389,134)**	**2.48**	(1,970,866)	3.44
Forfeited / cancelled	**-**	**-**	-	-
Outstanding, end of year	**994,200**	**$ 4.80**	1,133,334	$ 3.31
Options exercisable, end of year	**744,195**	**$ 3.95**	799,994	$ 2.86

The weighted-average share price at the date of exercise for share options exercised in 2023 was $7.84 (2022 - $5.98).

The range of exercise prices for options outstanding at December 31, 2023 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	0.18 yrs	$ 2.81	50,000	$ 2.81
35,000	0.18 yrs	2.83	35,000	2.83
100,000	1.18 yrs	2.19	100,000	2.19
50,000	1.18 yrs	2.09	50,000	2.09
159,200	2.18 yrs	2.74	159,200	2.74
100,000	2.18 yrs	2.64	100,000	2.64
150,000	3.18 yrs	6.08	99,999	6.08
100,000	3.18 yrs	6.16	66,666	6.16
150,000	4.19 yrs	7.96	49,998	7.96
100,000	4.19 yrs	7.83	33,332	7.83
994,200	2.61 yrs	$ 4.80	744,195	$ 3.95

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. Under the previous RAP, if common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Effective February 28, 2023, the Board approved an amendment to the RAP whereby if the Corporation elects to settle awards in common shares, the additional multiplier will no longer be applied. This amended plan applies to grants after February 28, 2023. Common shares acquired by an independent trustee in the open market are held in trust for the potential settlement of RA and PA award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlements. For the year ended December 31, 2023, the independent trustee purchased 114,000 common shares (2022 – 626,400) for a total cost of $0.6 million (2022 - $4.1 million) and released 121,763 common shares (2022 – 2,277,875) to settle retention award obligations of $1 million (2022 - $14.6 million). As at December 31, 2023, the independent trustee held 3,301 common shares in trust (2022 – 11,064). 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, 2023, 268,825 PAs were granted (2022 – 750,000), 681,979 PAs settled at a weighted-average payout multiplier of 136 percent (2022 – 774,152 PAs settled at a weighted-average payout multiplier of 184 percent), and no PAs were forfeited (2022 – 391,931). As at December 31, 2023, 863,897 PAs were outstanding (2022 – 1,198,469).

The Corporation recorded a total of $13.5 million compensation expense relating to these plans for the year ended December 31, 2023 (2022 – $24.6 million). The expense is included in selling, general and administrative expense and has a corresponding liability of $12 million in trade and other payables for the current portion and $4 million included in other liabilities for the long-term portion which had vesting dates after December 31, 2024 (2022 - $14.2 million and $4.5 million). There were 2,160,151 RAs and PAs outstanding as at December 31, 2023 (2022 - 2,845,191). The closing share price on December 31, 2023 of PHX stock was $8.10.

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

	2023	2022
RAs and PAs outstanding, beginning of year	**2,845,191**	3,267,579
Granted	**744,643**	1,613,555
Settled	**(1,429,683)**	(1,644,012)
Forfeited / cancelled	**-**	(391,931)
RAs and PAs outstanding, end of year	**2,160,151**	2,845,191

12. Revenue

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

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Year ended December 31,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Directional drilling services	**153,637**	107,417	**440,385**	390,881	**4,317**	4,118	**598,339**	502,416
Motor rental	**1,864**	1,127	**45,145**	32,202	**-**	-	**47,009**	33,329
Sale of motor equipment and parts	**-**	-	**10,993**	-	**-**	-	**10,993**	-
Total revenue	**155,501**	108,544	**496,523**	423,083	**4,317**	4,118	**656,341**	535,745

13. Expenses by Nature

(Stated in thousands of dollars)

Years ended December 31,	**2023**	2022
Salaries and employee benefits	**199,692**	150,141
Share-based payments	**13,962**	25,020
Personnel expenses	**213,654**	175,161
Equipment expenses	**150,620**	144,813
Consumed repair parts	**72,781**	49,683
Depreciation and amortization drilling and other equipment	**38,861**	32,119
Contract labour	**35,786**	39,767
Field and freight expenses	**23,694**	21,099
Insurance and business and sales taxes	**18,293**	15,637
Facility and office expenses	**8,333**	7,924
Travel and entertainment	**6,587**	5,665
Cost of motor equipment and parts sold	**4,287**	-
Depreciation and amortization right-of-use asset	**2,898**	3,235
Provisions for inventory obsolescence	**2,075**	1,299
Legal and audit fees	**1,676**	1,634
Other	**816**	694
	580,361	498,730

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,	**2023**	2022
Net gain on disposition of drilling equipment (Note 5b)	**$ 31,347**	$ 19,492
Foreign exchange (loss) gain	**1,107**	(287)
Recovery of (provision for) bad debts	**(117)**	13
Other	**-**	512
	$ 32,337	$ 19,730

15. Income Taxes

(Stated in thousands of dollars)

Years ended December 31,		**2023**		2022
Current tax expense (recovery):				
Current period	$	**10,274**	$	914
Adjustment for prior periods		**161**		(154)
		10,435		760
Deferred tax recovery:				
Origination and reversal of temporary differences		**8,943**		8,236
Adjustment for prior periods		**(14,308)**		46
		(5,365)		8,282
Total income tax expense	$	**5,070**	$	9,042

Reconciliation of effective tax rate

(Stated in thousands of dollars)

Years ended December 31,		**2023**			2022	
Net earnings	$	**98,580**		$	44,311	
Total income tax provision		**5,070**			9,042	
Income before income taxes		**103,650**			53,353	
Income tax using the Corporation's domestic tax rate		**23,739**	**22.9%**		12,271	23.0%
Change in unrecognized deductible temporary differences		**(17,722)**	**(17.1%)**		(4,773)	(8.9%)
Non-taxable portion of gains on disposal of assets		**(552)**	**(0.5%)**		(479)	(0.9%)
Research and development tax credit		**(359)**	**(0.3%)**		(280)	(0.5%)
Effect of tax rates in foreign jurisdictions		**331**	**0.3%**		(1,646)	(3.1%)
Non-deductible share-based payments and other expenses		**190**	**0.2%**		(516)	(1.0%)
Non-deductible loss / non-taxable gain on investments		**-**	**-**		4,536	8.5%
Other		**(557)**	**(0.5%)**		(71)	(0.1%)
	$	**5,070**	**4.9%**	$	9,042	17.0%

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,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Total revenue	**155,501**	108,544	**496,523**	423,083	**4,317**	4,118	**656,341**	535,745
Reportable segment profit before income taxes	**23,337**	8,700	**84,225**	64,030	**1,199**	1,412	**108,761**	74,142

(Stated in thousands of dollars)

	Canada		United States(i)		International		Total	
As at December 31,	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Segment non-current assets	**62,964**	57,961	**109,358**	106,318	**1,482**	664	**173,804**	164,943
Total Assets	**133,940**	121,388	**248,537**	251,305	**3,017**	2,531	**385,494**	375,224

(i) December 31, 2023 includes USD $1 million of assets physically located in the Middle East region (2022 – USD $3 million).

Reconciliation of reportable segment loss and other material items

(Stated in thousands of dollars)

Years ended December 31,	**2023**	2022
Reportable segment income before income taxes	**$ 108,761**	$ 74,142
Corporate:		
Selling, general and administrative expenses	**27,571**	33,404
Research and development expenses	**5,210**	3,723
Finance expense	**2,422**	1,360
Finance expense lease liability	**2,245**	2,032
Other income	**(32,337)**	(19,730)
Earnings from continuing operations before income taxes	**$ 103,650**	$ 53,353

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,		2023		2022
Trade and other receivables	$	4,386	$	(47,647)
Inventories		(2,129)		(26,919)
Prepaid expenses		(111)		(1,095)
Trade and other payables		(4,669)		27,478
Retention award liabilities settled in shares		955		14,619
Impact of foreign exchange rate changes and other in working capital		(4,106)		2,061
	$	(5,674)	$	(31,503)

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

(Stated in thousands of dollars)

Years ended December 31,		2023		2022
Trade and other payables		1,670		7
	$	1,670	$	7

18. Financial Instruments

a) Credit Risk

The Corporation held cash and cash equivalents of $16.4 million at December 31, 2023 (2022 – $18.2 million). The cash and cash equivalents are held with financial institution counterparts, which are rated A+, based on S&P Global ratings.

The Corporation is exposed to normal credit risks of its customers that exist within the oil and natural gas exploration and development industry. The Corporation's credit risk associated with these customers can be directly impacted by a decline in economic conditions, which would impair the customers' ability to satisfy their obligations to the Corporation. During the year ended December 31, 2023, one customer comprised 14 percent of the total revenue (2022 - 19 percent of revenue). The customer's revenue is reported within the US operating segment.

As at December 31, 2023, the aging of trade and other receivables that were not impaired was as follows:

(Stated in thousands of dollars)

		2023
Neither past due nor impaired	$	71,910
Past due 1-30 days		36,248
Past due 31-60 days		9,414
Past due 61-90 days		3,491
Past due over 90 days		271
	$	121,334

The Corporation's standard customer payment terms are 30 days after job completion or invoice issuance date, after which, the balance becomes past due. The Corporation will assess for impairment once the receivable becomes past due. All accounts receivable balances that are past due for more than 90 days and were not impaired represented less than one percent or approximately $0.3 million of total receivables on the statement of financial position at December 31, 2023. 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 $0.1 million for all amounts it considers uncollectable at December 31, 2023 (2022 - $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, 2023:

(Stated in thousands of dollars)

	2024	2025	2026	2027	2028 and after
Drilling and other equipment purchase commitments	42,724	-	-	-	-
Trade and other payables	100,438	-	-	-	-
Other non-current liabilities	-	3,362	680	-	-
Dividends payable	9,453	-	-	-	-
Bank loan interest and principal (i)	593	549	8,508	-	-
Lease payments (ii)	5,601	5,191	5,378	5,358	4,012
	158,809	9,102	14,566	5,358	4,012

(i) Bank loan interest has been estimated using interest rates in effect at December 31, 2023.
(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 approximates 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 $0.2 million for the year ended December 31, 2023.

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, 2023, foreign currency translation losses of $4.8 million (2022 – $8.8 million gain) that resulted from fluctuations in the CAD-USD exchange rates was recognized in other comprehensive income. In 2022, a $10.6 million of foreign currency translation losses was reclassified from other comprehensive income to net earnings upon sale of the Russia operations. For the year ended December 31, 2023, foreign exchange gains of $1.1 million (2022 - $0.3 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, 2023	**CAD**	**USD**
Cash and cash equivalents	**-**	**756**
Trade and other payables	**-**	**(2,651)**
Intercompany payables	**(1,948)**	**-**
Statement of financial position exposure	**(1,948)**	**(1,895)**

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

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

	Average Rate		December 31, Close Rate	
	2023	2022	**2023**	2022
USD	**1.3495**	1.3017	**1.3243**	1.3544

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

(Stated in thousands of dollars)

Gain (Loss)		**2023**		2022
CAD (10% strengthening)	**$**	**(132)**	$	91
USD (10% strengthening)		**(251)**		(95)

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 remains committed to shareholder returns through its Return of Capital Strategy ("ROCS") that includes multiple options including the dividend program and the NCIB.

The Corporation's management considers the capital structure to consist of long-term debt and shareholders' equity. As at December 31, 2023, the Corporation had $7.6 million in loans and borrowings outstanding (2022 – $22.7 million) and $210 million (2022 – $176.9 million) in shareholders' equity. The Corporation's resulting long-term debt to equity ratio was 0.04 as at December 31, 2023 (2022 – 0.13).

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, 2023, 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, 2023.

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.

The Corporation elected not to recognize right-of-use assets and lease liabilities for leases that were short-term, expired in 2023, 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
2023			
Balance at January 1,	**$ 28,540**	**$ 796**	**$ 29,336**
Depreciation charge for the year	**(2,562)**	**(336)**	**(2,898)**
Additions to right-of-use assets	**711**	**263**	**974**
Derecognition of right-of-use assets (i)	**-**	**(51)**	**(51)**
Effect of movement in exchange rate	**(294)**	**(11)**	**(305)**
Balance at December 31,	**$ 26,395**	**$ 661**	**$ 27,056**

(i) Derecognition of right-of-use assets during 2023 is a result of leases disposed of before lease end date.

(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.

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
2023				
Balance at January 1,	**$**	**38,840**	**835**	**39,675**
Additions and modifications		**711**	**263**	**974**
Derecognition of lease liability		**-**	**(47)**	**(47)**
Finance expense lease liability		**2,198**	**47**	**2,245**
Payments of principal		**(2,675)**	**(338)**	**(3,013)**
Interest paid on lease liabilities		**(2,198)**	**(47)**	**(2,245)**
Effect of movement in exchange rate		**(361)**	**(22)**	**(383)**
Balance at December 31,	**$**	**36,515**	**691**	**37,206**
Current lease liability		**2,956**	**278**	**3,234**
Non-current lease liability		**33,559**	**413**	**33,972**

(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
Finance expense lease liability		1,984	48	2,032
Payments of principal		(2,940)	(331)	(3,271)
Interest paid on lease liabilities		(1,984)	(48)	(2,032)
Effect of movement in exchange rate		550	21	571
Balance at December 31,	$	38,840	835	39,675
Current lease liability		2,574	333	2,907
Non-current lease liability		36,266	502	36,768

iii. Amounts Recognized in Consolidated Statements of Comprehensive Earnings

(Stated in thousands of dollars)

Years ended December 31,		**2023**		2022
Interest on lease liabilities	**$**	**2,245**	$	2,032
Expenses relating to short-term leases		**505**		448
Expenses relating to leases of low-value assets, excluding short-term leases of low value		**40**		90
Income from sub-leasing right-of-use assets presented in “finance expense lease liability”		**-**		(3)
	$	**2,790**	$	2,567

iv. Amounts Recognized in Consolidated Statements of Cash Flows

(Stated in thousands of dollars)

Years ended December 31,		**2023**		2022
Total cash outflow for IFRS 16 Leases	**$**	**(5,258)**	$	(5,303)

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.

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:

(Stated in thousands of dollars)

Years ended December 31,		2023		2022
Base salaries, benefits, and directors' remuneration	**$**	**3,072**	$	2,568
Short-term bonuses and commissions		**10,763**		7,394
Share-based compensation		**3,854**		3,394
	$	**17,689**	$	13,356

Key management personnel and director transactions

As at December 31, 2023, Directors and Executive Officers of the Corporation control 16 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 11) and can elect to receive certain percentages of these fees as RAs under the retention award plan. As at December 31, 2023, the Directors held 687,872 of RAs outstanding (2022 –1,086,395).

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, 2023, there were purchases of inventory which totaled less than $0.1 million from a related party (2022 – less than $0.1 million).

22. Significant Subsidiaries

	Country of Incorporation	Functional Currency	Ownership Interest 2023	Ownership Interest 2022
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 International Ltd. (i)	Cyprus	CAD	**100%**	100%

(i) Entity holds a branch in Albania.

23. 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. A loss on disposition of $3.5 million was recognized on the date the sale was completed.

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

(Stated in thousands of dollars)

		Year ended December 31, 2022
Revenue	$	7,443
Expenses		(5,781)
		1,662
Reclassification of foreign currency translation loss on disposition of Phoenix TSR		(10,561)
Loss on disposition of Phoenix TSR		(3,496)
Impairment and other write-offs		(1,967)
Loss from discontinued operations		(14,362)
Income tax from discontinued operations		196
Loss from discontinued operations, net of taxes	$	(14,558)

Included in the Corporation's other comprehensive income for the year-ended December 31, 2022 is $0.2 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:

(Stated in thousands of dollars)

	Year ended December 31, 2022
Net loss from discontinued operations, net of taxes	$ (14,558)
Addback (deduct):	
Depreciation and amortization	136
Provision for income taxes	196
Unrealized foreign exchange gain	(56)
Interest and taxes paid, net	(3)
Loss on disposition of drilling equipment	68
Finance expense	3
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	10,561
Impairment and other write-offs	1,967
Loss on disposition of Phoenix TSR	3,496
Change in non-cash working capital	(3,065)
Cash used in operating activities	$ (1,255)

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

Corporate Information

Board of Directors

John Hooks

Randolph (“Randy”) M. Charron

Myron Tétreault

Karen David-Green

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

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

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

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta