PHX
ENERGY SERVICES CORP.

2021

Annual Report

Management's Discussion and Analysis

February 23, 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, 2021 and 2020, and the accompanying notes contained therein, as well as other sections contained within the Corporation's 2021 annual report. Readers can also obtain additional information on the Corporation from its most recent Information Circular and Annual Information Form ("AIF") filed on SEDAR at www.sedar.com. This MD&A has been prepared taking into consideration information available up to and including February 23, 2022.

PHX Energy's audited annual financial statements for the years ended December 31, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 23, 2022.

Non-GAAP Measures

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

Overall Performance

For the year-ended December 31, 2021, the Corporation achieved its highest adjusted EBITDA[1] and net earnings since 2014. In the 2021-year, PHX Energy realized an adjusted EBITDA of $60.4 million (17 percent of revenue), a 52 percent improvement compared to the $39.7 million (16 percent of revenue) reported in the 2020-year. Net earnings for the 2021-year were $22.7 million compared to a net loss of $7.8 million in the 2020-year. The North American drilling industry continued to rally as it exited 2020, and PHX Energy particularly capitalized on the US drilling activity's momentum while maintaining strong cost controls across all regions. Adjusted EBITDA and net earnings in the 2021-year included share-based compensation of $13.3 million (2020 - $2.1 million) and government grants of $8.8 million (2020 - $5.4 million). Excluding the impact of share-based compensation, adjusted EBITDA was $73.7 million in 2021 (2020 - $41.9 million).

In the three-month period ended December 31, 2021, adjusted EBITDA more than doubled to $17.9 million (17 percent of revenue) from $8.5 million (15 percent of revenue) in the comparable 2020-quarter. Net earnings improved to $8.7 million in the fourth quarter of 2021 from $2 million in the comparable three-month period of 2020. Adjusted EBITDA and net earnings in the 2021-quarter included share-based compensation of $3 million (2020 - $3.1 million) and government grants of $0.1 million (2020 - $3 million). Excluding the impact of share-based compensation, adjusted EBITDA was $20.9 million for the 2021 three-month period (2020 - $11.5 million).

The Corporation's consolidated revenue for the 2021-year increased by 42 percent to $350 million from $246.4 million in 2020 while consolidated operating days increased by 31 percent to 22,244 days from 16,980 days in 2020. For the fourth quarter of 2021, the Corporation generated revenue of $105.4 million as compared to $56.8 million in the 2020-quarter, an increase of 85 percent. Revenue growth in the 2021-year and fourth quarter was primarily driven by increased activity in the US and the deployment of and high demand for the Corporation's high performance technologies, in particular, the Atlas High Performance motors ("Atlas"), Velocity Real-Time systems ("Velocity"), and PowerDrive Orbit Rotary Steerable Systems ("RSS").

Exiting the 2021-year, the Corporation maintained strength in its financial position and reported a cash balance of $24.8 million with no bank loans outstanding.

Dividends

The Board reviews the Corporation's dividend policy on a quarterly basis. In light of the Corporation's balance sheet strength and improving adjusted EBITDA, the Board has approved another increase to the quarterly dividend to $0.075 per common share from the previous $0.05 per common share effective for the dividend payable on April 18, 2022; an increase of 50 percent.

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

In December 2020, the Board reinstated the quarterly dividend program and declared a cash dividend of $0.025 per common shares. In the third-quarter of the 2021-year, the Board approved a 100 percent increase to the quarterly cash dividend to $0.05 per common share.

On December 15, 2021, PHX Energy declared a cash dividend of $0.05 per common share and an aggregate of $2.5 million was paid on January 17, 2022 to shareholders of record at the close of business on December 31, 2021.

Capital Spending

For the year ended December 31, 2021, the Corporation spent $35.3 million in capital expenditures, as compared to $25.9 million in capital expenditures in the previous year. With oil prices surpassing pre-pandemic levels and ongoing global supply chain disruptions, the Corporation is maintaining a proactive strategy focused on growing its fleet of high performance technologies to benefit from the robust demand for oil and gas services. Capital expenditures in the 2021-year were primarily directed towards Atlas motors, Velocity systems, and PowerDrive Orbit RSS. Of the total capital expenditures, $23.1 million was spent on growing the Corporation’s fleet of drilling equipment (2020 - $17.8 million) and the remaining $12.2 million was spent on maintenance of the current fleet of drilling and other equipment (2020 - $8.1 million).

The approved capital expenditure budget for the 2021-year was $43 million. Due to global supply chain disruptions, the Corporation received only $35.3 million of drilling and other equipment in 2021. The remaining $7.7 million from the 2021 budget has been carried forward into the 2022 capital expenditure budget. PHX Energy currently anticipates spending $47.7 million in capital expenditures during 2022, of which $15.5 million is expected to be allocated to maintenance of existing drilling and other equipment and $32.2 million allocated to growth capital.

As at December 31, 2021, the Corporation has capital commitments to purchase drilling and other equipment for $35.6 million, $24.4 million of which is growth capital and includes $21 million for performance drilling motors, $2.2 million for Velocity systems, and $1.2 million for other equipment. Equipment on order as at December 31, 2021 is expected to be delivered within the second half of 2022, with exception of RSS orders which are anticipated in the first quarter of the year.

The Corporation currently possesses approximately 456 Atlas motors, comprised of various configurations including its 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8" and 9" Atlas motors, 95 Velocity systems, and 33 PowerDrive Orbit RSS, the largest independent fleet in North America.

Responding to COVID-19

In the 2021-year, COVID-19 and resulting government responses continued to have a material impact on businesses worldwide. With vaccines becoming widely available, there was an easing of restrictions by most governments which lead to improved industry and economic conditions in the year. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time. Currently there are mounting supply chain challenges that have resulted from the impact of COVID-19 and these are creating shortages and inflation related to the products and services required within the energy sector, including within the Corporation's supply chain. PHX Energy has been proactive with efforts to lessen the supply chain disruptions' impact on its operations and remains diligent in monitoring, evaluating and adjusting its business costs in line with drilling activity in North America. The Corporation will continue to implement changes as required.

PHX Energy has and will continue to preserve a solid financial position and retain financial flexibility through substantial liquidity on its credit facilities. As at December 31, 2021, the Corporation has working capital(1) of $55.1 million and approximately CAD $65 million and USD $15 million available from its credit facilities. Additional information regarding the risks, uncertainties and impact on the Corporation's business can be found throughout this MD&A, including under the headings "Capital Spending", "Operating Costs and Expenses", "Critical Accounting Estimates", "Business Risk factors – Impact of Pandemics – COVID-19" and "Outlook".

Re-presentation of Assets Held for Sale

Subsequent to December 31, 2021, the Corporation formally terminated the preliminary agreement for the sale of the Russian division, Phoenix TSR LLC ("Phoenix TSR"). However, discussions are continuing with the interested party to reach an alternative agreement. At this time, there is no formal agreement and if one is entered there can be no assurance that the sale of the Russian division will be completed on the terms agreed upon or at all. Accordingly, the comparative results for the year ended December 31, 2020 have been re-presented to include the assets and liabilities of Phoenix TSR as held for use and the operations of Phoenix TSR as part of continuing operations and reporting under the international cash generating unit ("CGU").

As part of the reclassification from assets held for sale and to held for use, the Corporation recognized a loss on remeasurement of $1.2 million on the long-lived assets owned by Phoenix TSR. The loss on remeasurement is reported in other income on the Consolidated Statements of Comprehensive Earnings (Loss).

The oil and natural gas drilling activity in Russia has begun to recover from the downturn caused by the pandemic in 2020 and early 2021, and PHX intends to continue to operate within the country and evaluate the current sale opportunity or other future opportunities as they arise.

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

Technology Arrangement

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

Shares Held in Trust

In the second quarter of 2021, the Corporation amended its cash-settled share-based retention award plan (the "RAP") to permit the settlement of restricted and performance awards with, at the option of the Corporation, either cash or common shares acquired by an independent trustee in the open market from time-to-time for such purposes. Pursuant to the terms of the RAP, if common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired by the independent trustee in the open market are held in trust for the potential settlement of restricted and performance award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlements. For the year-ended December 31, 2021, the trustee purchased 1,662,537 common shares for a total cost of $7.5 million. As at December 31, 2021, 1,662,537 common shares are held in trust for purposes of the RAP.

Investments

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

Normal Course Issuer Bid

During the third quarter of 2021, 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 3,679,797 common shares, representing 10 percent of the Corporation's public float of common shares outstanding as at August 6, 2021. The NCIB commenced on August 16, 2021 and will terminate on August 15, 2022 or such earlier time as the NCIB is completed or terminated by PHX Energy. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the current NCIB, an aggregate of 1,499,900 common shares have been purchased by the Corporation and cancelled as at December 31, 2021.

The Corporation's previous NCIB commenced on August 14, 2020 and terminated on August 13, 2021. Pursuant to the previous NCIB, a total of 3,131,388 common shares were repurchased and cancelled by the Corporation, of which 460,888 were repurchased and cancelled in 2021.

PHX Energy has continued to use NCIBs as an additional tool to enhance total long-term shareholder returns in conjunction with management's disciplined capital allocation strategy. In 2021, the Corporation purchased and cancelled 4 percent of its total common shares outstanding as at December 31, 2020, representing 15 percent of funds from operations(1).

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

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,		
	2021	2020	% Change	**2021**	2020	% Change
Operating Results	***(unaudited)***	*(unaudited)*				
Revenue	**105,428**	56,838	85	**349,920**	246,402	42
Net earnings (loss)	**8,652**	1,954	n.m.	**22,725**	(7,771)	n.m.
Earnings (loss) per share – diluted	**0.17**	0.04	n.m.	**0.44**	(0.15)	n.m.
Adjusted EBITDA [1]	**17,868**	8,472	111	**60,382**	39,719	52
Adjusted EBITDA excluding share-based compensation [1]	**20,889**	11,538	81	**73,655**	41,850	76
Adjusted EBITDA per share – diluted [1]	**0.35**	0.17	106	**1.17**	0.76	54
Adjusted EBITDA excluding share-based compensation as a percentage of revenue [1]	**20%**	20%		**21%**	17%	
Cash Flow						
Cash flows from operating activities	**13,777**	10,131	36	**45,431**	67,911	(33)
Funds from operations [1]	**14,302**	6,676	114	**51,839**	36,106	44
Funds from operations per share – diluted [1]	**0.28**	0.13	115	**1.00**	0.69	45
Dividends paid per share	**0.05**	-	n.m.	**0.125**	-	n.m.
Dividends paid	**2,505**	-	n.m.	**6,291**	-	n.m.
Capital expenditures	**11,135**	3,612	n.m.	**35,305**	25,857	37
Free cash flow [1]	**8,967**	2,713	n.m.	**34,193**	22,596	51
Financial Position, December 31,						
Working capital [1]				**55,083**	57,034	(3)
Net Debt [1] [2]				**(24,829)**	(25,746)	(4)
Shareholders' equity				**134,432**	132,033	2
Common shares outstanding				**47,978,662**	50,625,920	(5)

n.m. – not meaningful

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

[2] As at December 31, 2021 and 2020, the Corporation had no bank loans outstanding and was in a cash positive position.

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 potential for further impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto;
- Discussions are continuing with the interested party to reach an alternative agreement for the sale of the Russian division. At this time, there is no formal agreement and if one is entered there can be no assurance that the sale of the Russian division will be completed on the terms agreed upon or at all. PHX intends to continue to operate within Russia and evaluate the current sale opportunity or other future opportunities as they arise.
- Anticipated continuation of the Corporation's quarterly dividend program and the amounts of dividends;
- The projected capital expenditures budget for 2022 of $47.7 million, and how the budget will be allocated and funded;
- Equipment on order as at December 31, 2021 is expected to be delivered within the second half of 2022, with exception of RSS orders which are anticipated in the first quarter of the year;
- Access to NESR's international markets is anticipated to provide opportunities to further extend the global reach and reputation of the Corporation's high performance technologies and equipment. Based on preliminary drilling results during the qualification process, the Corporation is optimistic that the tenders will be successful and through its arrangement will be an active supplier in the region. It is anticipated that the tender process will take some time and the Corporation is expecting to increase activity levels in the region in the 2022-year;
- Peters & Co. Limited forecast 2022 conventional capital spending in Canada to increase by approximately 25 percent;
- The consensus among analysts is that US Operators capital spending will increase by approximately 20-25 percent in 2022.

- Planned expenditures are expected to be financed primarily by funds from operations. However, if a sustained period of market and commodity price uncertainty and financial market volatility persists in 2022, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, in which event the proceeds from borrowing may be required to fund operations, and the expenditure level would be reduced accordingly;
- Anticipated resumption of drilling activity in Albania in the 2022-year;
- The anticipated impact of global supply chain disruptions on the Corporation's operations, results, and the Corporation's planned responses thereto;
- The anticipated increased demand for the Corporation's services and high performance technologies in North America;
- The potential future settlement of restricted and performance awards in common shares that were purchased by an independent trustee in the open market for such purposes; and,
- DEEP Earth Energy Production Corp. maintaining its operating status as a going concern.

The above are stated under the headings: "Overall Performance", "Industry Activity & Statistics", "Segmented Information", "Investing Activities" and "Cash Requirements for Capital Expenditures". In addition, all information contained within the "Critical Accounting Estimates and Judgments", "Financial Instruments", "Business Risk Factors" and "Outlook" sections of this MD&A may contain forward-looking information and statements.

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

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

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

About PHX Energy Services Corp.

The Corporation, through its directional drilling subsidiary entities, provides horizontal and directional drilling technology and services to oil and natural gas producing companies in Canada, the US, Russia, Albania, and the Middle East regions through an arrangement with National Energy Services Reunited Corp.

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

As at December 31, 2021, PHX Energy had 707 full-time employees (2020 – 540) and the Corporation utilized over 120 additional field consultants in 2021 (2020 – over 150).

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. 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 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 [(1)];
- the reliability of the Corporation's equipment and ability to provide high quality services in the field;
- market share retention and growth; and,
- health and safety performance targets.

Industry Activity and Statistics

In 2021, the North American industry rebounded from what was one of the worst downturns in its history with rig counts steadily climbing as world demand for commodities returned to pre-pandemic levels. Although the upward trend is positive, as the COVID-19 pandemic lingers on activity levels still remain low from a historical basis and there is still caution within the industry.

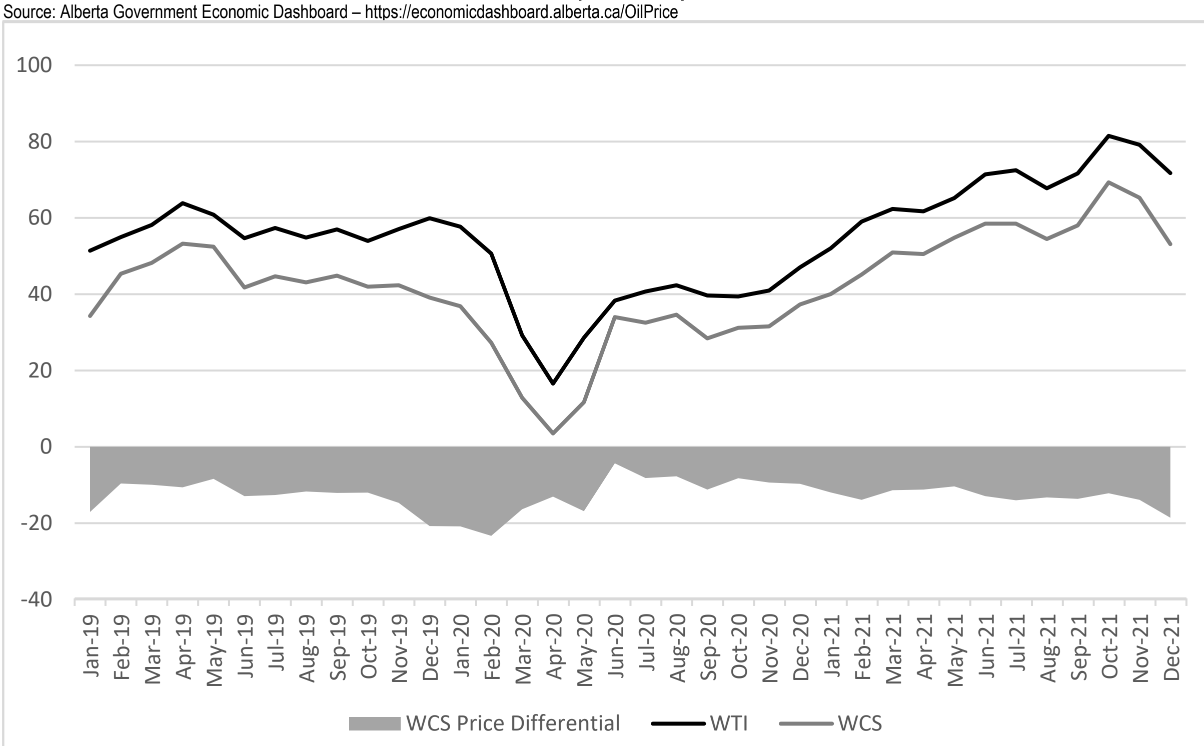
Commodity Price Trends

In 2021 commodity prices improved as energy demand returned after being suppressed by the COVID-19 pandemic's impact on the global economy in 2020. The average Western Texas Intermediate ("WTI") price was 73 percent higher in 2021 at approximately USD $68 per barrel for the year (2020 – USD $39). The average price of Western Canadian Select ("WCS") doubled year-over-year and was USD $54 per barrel in 2021 (2020 – USD $27). The average differential between WTI and WCS remained relatively consistent with the prior year and was USD $13.10 in 2021 (2020 - $12.40). (Source: Alberta Government Economic Dashboard – https://economicdashboard.alberta.ca/OilPrice).

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

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

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

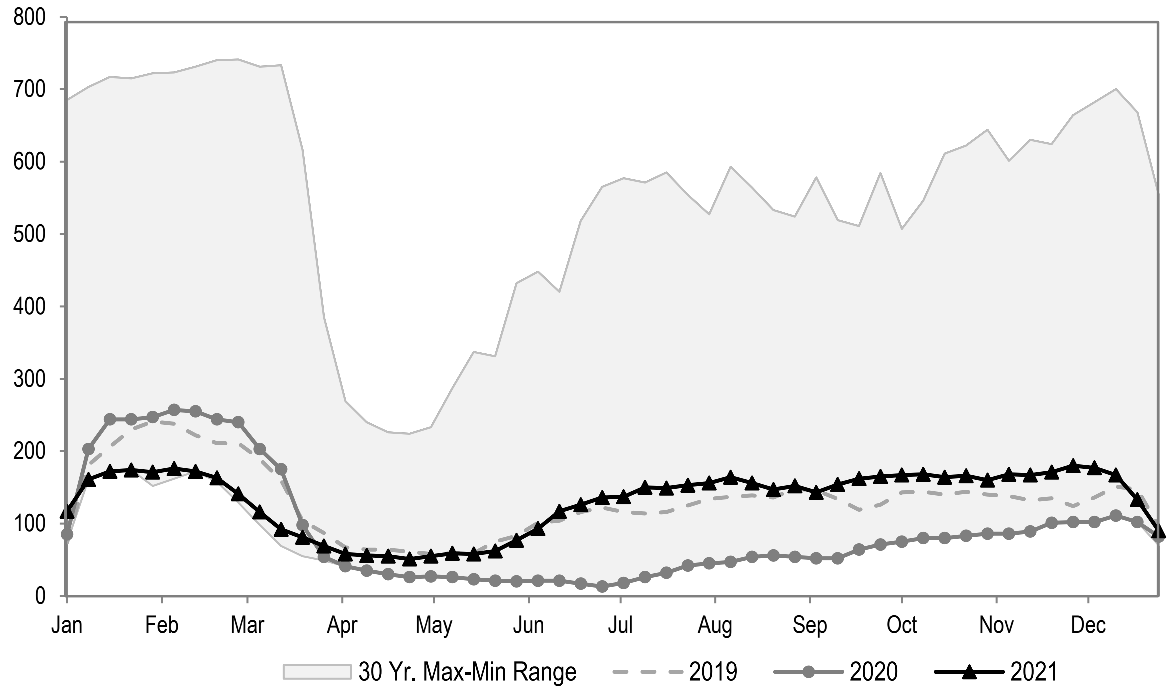


Natural gas commodity prices have strengthened over 2021 to levels not seen in over 5 years as supply levels decreased. The Henry Hub spot price averaged USD $4.06 per gigajoule in 2021 (2020 – USD $2.09) while AECO-C spot averaged CAD $3.63 per gigajoule in 2021 (2020 – CAD $2.24) (Source Peters & Co. Limited, Winter 2022 Energy Overview , 01-21-22 and Peters & Co. Limited, Energy Statistics, 01-04-2022).

Canadian Industry

WCSB Active Drilling Rig Count

Source: Baker Hughes, North American Rotary Rig Count, 12-31-21



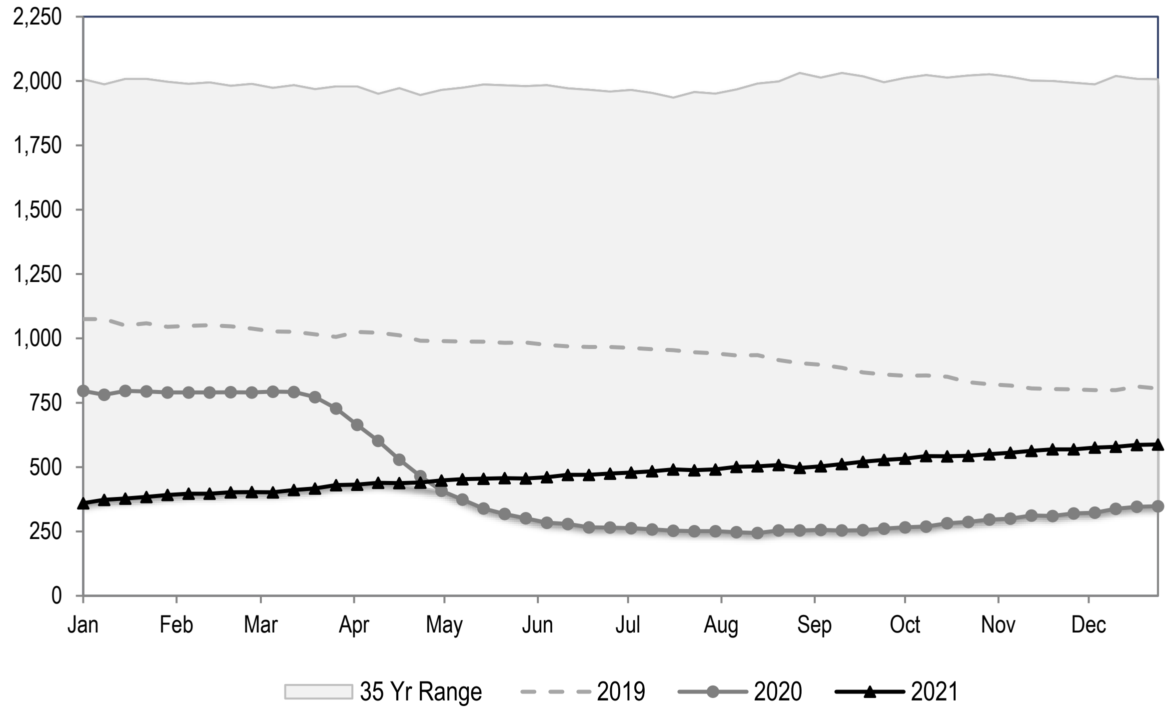
The Canadian market's activity rebounded from the 30-year lows reached in 2020 with improved commodity prices, however historically the activity still remains suppressed. In 2021, there was an average of 131 active rigs per day which is 50 percent more than the 88 rigs operating on average in 2020. This compares to the 5-year average of 150 active rigs. Horizontal and directional drilling continues to be the norm in the industry, and combined, horizontal and directional wells represented 95 percent of the total 2021 industry drilling days (2020 – 95 percent). Oil well drilling represented 57 percent of the Canadian industry's average active rig count in 2021 which is slightly higher than the 52 percent in 2020. (Source: Daily Oil Bulletin, hz-dir days 211231, 01-11-2021 and Baker Hughes, North American Rotary Rig Count, 01-07-22).

Canadian producers' conventional capital spending increased by approximately 45 percent year-over-year in 2021 which contributed to higher rig activity. Peters & Co. Limited forecast 2022 conventional capital spending to increase by approximately 25 percent (Source: Peters & Co. Limited).

US Industry

US Active Drilling Rig Count

Baker Hughes, North American Rotary Rig Count, 12-31-21



The US rig counts grew significantly in 2021, with the Permian basin remaining the most active area with half the active rigs nationally. The average rig count increased 10 percent annually to 478 rigs operating per day in the 2021-year, as compared to an average of 433 rigs in 2020. However, when comparing the average rigs running in January to the average in December, the increase is more dramatic going from 374 active rigs in January to 579 active rigs in December. Annually there was an average of 240 active rigs (2020 – 220 active rigs) in the Permian basin and in December there were 288 active rigs in this lucrative basin. Horizontal and directional drilling continued to represent 95 percent of active rigs (2020 – 95 percent). (Source: Baker Hughes, North American Rotary Rig Count, 01-07-22).

Capital spending from operators in the US has remained disciplined in 2021, as operators preserved cash and focused on shareholder returns. Capital spending from US operators was largely flat year-over-year and the consensus among analysts is that it will increase by approximately 20-25 percent in 2022 (Source: Peters & Co. Limited).

Results of Operations

Three-Month Period and Year Ended December 31, 2021

Revenue

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Revenue	**105,428**	56,838	85	**349,920**	246,402	42

In the fourth quarter of 2021, PHX Energy achieved its highest level of quarterly revenue since the fourth quarter of 2014. This was achieved despite the US industry drilling activity not having fully recovered to pre-pandemic levels. For the three-month period ended December 31, 2021, consolidated revenue increased by 85 percent to $105.4 million compared to $56.8 million in the corresponding 2020-quarter. Higher revenue in the 2021-quarter was primarily driven by PHX Energy's high performance technologies as the Corporation continued to expand capacity and improve operating efficiencies during the quarter to address growing demand. Average consolidated revenue per day, excluding the motor rental division in the US, for the three-month period ended December 31, 2021, was $15,789 an increase of 17 percent as compared to $13,545 in the 2020-quarter. In the 2021 three-month period, consolidated operating days increased by 56 percent to 6,386 days compared to 4,099 days in the corresponding 2020-period. US revenue comprised 76 percent of total consolidated revenue for the fourth quarter of 2021 (2020 – 74 percent).

In the fourth quarter of 2021, the US and Canadian rig counts almost doubled when compared to the number of rigs operating in the comparable quarter of 2020. Similar to prior quarters of the 2021-year, there has been substantial growth in rig counts in both geographic divisions corresponding with the increase in global energy prices. In Canada, there was an average of 159 active rigs per day in the fourth quarter of 2021 (2020 – 88 rigs) and in the US, there was an average of 559 active rigs per day in the fourth quarter of 2021 (2020 – 311 rigs). Horizontal and directional drilling continues to dominate the market representing approximately 95 percent of the drilling activity in North America (Source: Baker Hughes).

For the year ended December 31, 2021, consolidated revenue was $349.9 million, an increase of 42 percent, compared to $246.4 million in 2020. Higher revenue in 2021 was mainly driven by growth in the US division year-over-year, with the US representing 78 percent (2020 – 75 percent) of total consolidated revenue. In the 2021-year, consolidated operating days increased by 31 percent to 22,244 days from 16,980 days in the same 2020-period. The 2021 annual average consolidated revenue per day, excluding the motor rental division in the US, was $15,104 compared to $13,968 in 2020, an 8 percent increase. In late 2021, PHX Energy negotiated some pricing increases to reverse concessions made during the downturn in 2020. However, the directional drilling market remains highly competitive and as a result the process takes some time.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Direct costs	**84,276**	49,227	71	**278,265**	213,064	31
Gross profit as a percentage of revenue[1]	**20%**	13%		**20%**	14%	
Depreciation & amortization drilling and other equipment (included in direct costs)	**6,898**	6,660	4	**25,860**	29,454	(12)
Depreciation & amortization right-of-use asset (included in direct costs)	**837**	838	-	**3,336**	3,561	(6)
Gross profit as a percentage of revenue excluding depreciation & amortization[1]	**27%**	27%		**29%**	27%	

Direct costs are comprised of field and shop expenses and include depreciation and amortization of the Corporation's equipment and right-of-use assets. For the three-month period and year ended December 31, 2021, direct costs increased by 71 and 31 percent, respectively, primarily as a result of higher activity in all of the Corporation's operating segments and inflationary pressures resulting in higher labour costs and equipment repair expenses. No government grants were recognized in direct costs for the three-month period ended December 31, 2021 (2020 - $1.6 million). For the year ended December 31, 2021, government grants of $6.5 million (2020 - $3 million) related to the Canadian Emergency Wage Subsidy ("CEWS"), Canadian Emergency Rent Subsidy ("CERS") programs, and the Coronavirus Aid, Relief, and Economic Security ("CARES") Act were recognized by the Corporation in direct costs.

The Corporation's depreciation and amortization on drilling and other equipment for the three-month period ended December 31, 2021, increased by 4 percent as capital expenditures progressively increased during the year with the bulk of fixed assets received in the fourth quarter of the 2021-year. For the year ended December 31, 2021, depreciation and amortization on drilling and other equipment decreased by 12 percent mainly due to PHX Energy's lower level of capital spending in the first half of the year relative to the quarters before the COVID-19 pandemic and more assets being fully depreciated.

Gross profit as a percentage of revenue [1], excluding depreciation and amortization, was flat at 27 percent in both three-month periods of 2021 and 2020. For the 2021-year, gross profit as a percentage of revenue, excluding depreciation and amortization, increased to 29 percent from 27 percent in 2020. Despite the US industry activity still being below pre-pandemic levels and the absence of government grants in the second half of the 2021-year, management was successful in maintaining profitability through effective cost management and continuing cost efficiencies in all major aspects of the Corporation's operations,

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

particularly related to equipment repair costs and equipment rentals. Government grants received in the first half of 2021 also contributed to the improvement in gross profit for the year.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Selling, general and administrative ("SG&A") costs	**13,510**	8,200	65	**46,710**	28,738	63
Cash-settled share-based compensation (included in SG&A costs)	**2,972**	3,038	(2)	**12,889**	1,889	n.m.
Equity-settled share-based compensation (included in SG&A costs)	**49**	28	75	**384**	242	59
SG&A costs excluding cash and equity-settled share-based compensation as a percentage of revenue(1)	**10%**	9%		**10%**	11%	

n.m. – not meaningful

For the three-month period and year ended December 31, 2021, SG&A costs were $13.5 million and $46.7 million, respectively, as compared to $8.2 million and $28.7 million in the corresponding 2020-periods. The increase in SG&A costs in the fourth quarter of 2021 was mainly due to higher personnel costs associated with increased drilling activity and the absence of government grants (2020 - $1.1 million). For the year ended December 31, 2021, SG&A costs increased by 63 percent primarily as a result of higher labour costs and greater compensation expenses related to cash-settled share-based awards. The increase in SG&A costs for the 2021-year was partially offset by government grants of $1.9 million (2020 - $1.9 million) related to CEWS, CERS and CARES support.

Cash-settled share-based compensation relate to the Corporation's RAP and are measured at fair value. In the 2021-quarter, the related compensation expense recognized by PHX Energy remained flat at $3 million. For the year-ended December 31, 2021, the compensation expense related to cash-settled share-based restricted awards was $12.9 million compared to the 2020-year's expense of $1.9 million. Changes in cash-settled share-based compensation expense in the 2021-periods are mainly attributable to fluctuations in the Corporation's share price period-over-period. There were 3,267,579 cash-settled share-based restricted awards outstanding as at December 31, 2021 (2020 – 3,487,297).

Equity-settled share-based compensation relate to the amortization of the fair values of issued options of the Corporation using the Black-Scholes model. For the three-month period and year ended December 31, 2021, equity-settled share-based compensation expense increased to $49 thousand and $0.4 million, respectively, compared to $28 thousand and $0.2 million in the same 2020-periods. The higher equity-settled share-based compensation expense in both 2021-periods are largely due

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to the higher fair value of the 2021 options granted compared to the 2018 to 2020 options that vested during the respective periods.

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Research and development expense	**1,049**	148	n.m.	**2,774**	1,944	43

n.m. – not meaningful

Research and development ("R&D") expenditures during the quarter and year ended December 31, 2021 were $1 million and $2.8 million, respectively, compared to $0.1 million and $1.9 million in the corresponding 2020-periods. PHX Energy's R&D focus continues to be on developing new technologies, improving the reliability of equipment, and reducing costs to operations. The higher R&D expenditures in both 2021-periods are primarily due to the increase of personnel related costs in the R&D department. R&D expenses for the quarter and year ended December 31, 2021 included government grants of $0.1 million and $0.4 million, respectively (2020 - $0.3 million and $0.5 million, respectively).

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Finance expense	**117**	108	8	**496**	769	(36)
Finance expense lease liability	**516**	562	(8)	**2,125**	2,361	(10)

Finance expense mainly relates to interest charges on the Corporation's long-term and short-term bank facilities. With all loans and borrowings paid down in the second quarter of 2020, finance charges for the three-month periods ended December 31, 2021 and 2020, which comprised primarily of standby charges, remained consistent at $0.1 million. For the 2021-year, finance expense decreased 36 percent to $0.5 million from $0.8 million in 2020. Since the second quarter of 2020, the Corporation has solely funded its operating, investing, and financing activities with funds from operations and cash and cash equivalents.

Finance expense lease liability relates to interest expenses incurred on lease liabilities. For the three and twelve-month periods ended December 31, 2021, finance expense lease liability decreased to $0.5 million and $2.1 million, respectively (2020 - $0.6 million and $2.4 million, respectively).

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
Net gain on disposition of drilling equipment	**(3,459)**	(1,211)	**(7,718)**	(3,756)
Foreign exchange loss	**103**	88	**88**	86
Provision for (recovery of) bad debts	**(2)**	(699)	**(281)**	1,645
Loss on remeasurement	**1,178**	-	**1,178**	-
Other income	**(2,180)**	(1,822)	**(6,733)**	(2,025)

Net gain on disposition of drilling equipment typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. During the quarter and year ended December 31, 2021, the Corporation recognized a $3.5 million and $7.7 million gain on dispositions, respectively, compared to gains of $1.2 million and $3.8 million in the corresponding 2020-periods. Over the course of 2021, the Corporation had a higher occurrence of downhole equipment losses resulting in a higher net gain on disposition of drilling equipment.

Foreign exchange losses relate to unrealized and realized exchange losses in the period. Foreign exchange losses remained consistent at $0.1 million for the three-month periods and years ended December 31, 2021 and 2020.

For the three and twelve-month periods ended December 31, 2021, the Corporation reported a bad debt recovery of $2 thousand and $0.3 million, respectively (2020 - $0.7 million recovery and $1.6 million expense, respectively), which relates mainly to US receivable accounts recovered in 2021.

For the quarter and year-ended December 31, 2021, the Corporation recognized a loss on remeasurement of $1.2 million as the assets and liabilities of Phoenix TSR no longer meet the criteria to be reported as held for sale. As part of the reclassification to assets held for use and continuing operations, the long-lived assets of Phoenix TSR were remeasured to approximate carrying value had depreciation been recognized on the drilling equipment during its classification as assets held for sale.

(Stated in thousands of dollars except percentages)

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
Provision for (Recovery of) income taxes	**(511)**	(1,540)	**3,558**	(1,407)
Effective tax rates	**n.m.**	n.m.	**14%**	15%

n.m. – not meaningful

For the three-month period ended December 31, 2021, the Corporation recognized a recovery for income taxes of $0.5 million (2020 - $1.5 million). For the year-ended December 31, 2021, the Corporation recognized an income tax provision of $3.6 million (2020 - $1.4 million recovery).

Higher provisions for the 2021-periods are mainly a result of improved profitability particularly in the US jurisdictions. Deferred taxes in the 2021 and 2020-periods were impacted by unrecognized deferred tax assets with respect to deductible temporary differences in the Canadian jurisdictions.

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

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Net earnings (loss)	**8,652**	1,954	n.m.	**22,725**	(7,771)	n.m.
Earnings (loss) per share – diluted	**0.17**	0.04	n.m.	**0.44**	(0.15)	n.m.
Adjusted EBITDA[(1)]	**17,868**	8,472	111	**60,382**	39,719	52
Adjusted EBITDA excluding share-based compensation[(1)]	**20,889**	11,538	81	**73,655**	41,850	76
Adjusted EBITDA per share – diluted[(1)]	**0.35**	0.17	106	**1.17**	0.76	54
Adjusted EBITDA excluding share-based compensation as a percentage of revenue[(1)]	**20%**	20%		**21%**	17%	

n.m. – not meaningful

For the three-month period the Corporation's adjusted EBITDA excluding share-based compensation as a percentage of revenue remained consistent at 20 percent. For the year ended December 31, 2021, adjusted EBITDA excluding share-based compensation as a percentage of revenue increased to 21 percent from 17 percent in the corresponding 2020-period. Higher activity and revenue as well as continual implementation of cost saving initiatives over the course of 2021 mainly contributed to the improvement in the Corporation's profitability.

Despite the recognition of a loss on remeasurement of $1.2 million and minimal government grants received in the three-month period of 2021, net earnings in the 2021-quarter increased to $8.7 million as compared to $2 million in the 2020-quarter. The 2021-quarter net earnings included a $3.5 million net gain on disposition of drilling equipment. The 2020-quarter net earnings included a bad debt recovery of $0.7 million and government grants of $3 million related to CEWS and CERS. For the year-ended December 31, 2021, net earnings were $22.7 million as compared to a loss of $7.8 million in the 2020-year. Net earnings for the 2021-year included $8.8 million in various government grants, a $7.7 million net gain on disposition of drilling equipment, and $13.3 million in share-based compensation. The loss incurred during the 2020-year included a $10.7 million impairment loss and $5.4 million of government grants earned as part of the CEWS and CERS programs.

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Segmented Information

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

Canada

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Revenue	**22,541**	12,821	76	**67,560**	49,031	38
Reportable segment profit before tax (1)	**1,798**	3,823	(53)	**6,604**	3,916	69

(1) Includes adjustments to intercompany transactions.

Rig counts returned to pre-pandemic levels in the final quarter of the 2021-year; however, the Canadian oil and gas industry continues to experience low rig counts relative to historic levels. Despite another challenging year overall, PHX Energy's Canadian operations realized positive segment earnings. The Canadian division remained focused on maintaining market share and providing unparalleled drilling performance while protecting its margins through operational efficiencies and cost saving measures.

For the three-month period ended December 31, 2021, PHX Energy's Canadian division generated $22.5 million in revenue, an increase of 76 percent compared to $12.8 million in the 2020-quarter. Higher revenue in the 2021-quarter mainly resulted from increased activity, which rose by 62 percent to 2,287 days compared to 1,411 days in the same 2020-quarter. The average revenue per day in the 2021-quarter was $9,836 (2020 - $9,088), an increase of 8 percent over the 2020 fourth quarter that was primarily due to the easing of some pricing concessions made as a result of the COVID-19 pandemic. In the final quarter of the 2021-year, PHX Energy's Canadian operations realized a lower reportable segment profit before tax of $1.8 million compared to $3.8 million during the fourth quarter of 2020 as the Canadian division did not recognize government grants in its reportable segment profit in the 2021 three-month period (2020 - $3 million).

For the year ended December 31, 2021, PHX Energy's Canadian division's revenue increased by 38 percent to $67.6 million from $49 million in the 2020-year. The Canadian segment also realized a reportable segment profit before tax of $6.6 million in the 2021-year compared to $3.9 million in the 2020-year, a 69 percent increase. Excluding government grants, the Canadian segment profit for the 2021-year was $3.3 million compared to a segment loss of $1.5 million in the prior year. Improved revenue and profitability in the 2021-year primarily resulted from increased operating days, lower depreciation, and lower level of inventory obsolescence. Drilling activity in the Canadian segment improved by 40 percent from 5,184 operating days in 2020 to 7,269 days in 2021. For the year ended December 31, 2021, there were 45,624 horizontal and directional drilling days realized in the Canadian industry, compared to the 29,619 days realized in 2020, a 54 percent improvement (Sources: Daily Oil Bulletin). The difference between the industry's rate of growth and the Corporation's mainly relates to customer mix, the Corporation's strategies to protect profit margins and the competitive nature of the directional drilling sector. PHX Energy's Canadian operating segment remains a leader in this market being among the top three service providers. During the 2021-year, the Corporation was active in the Montney, Glauconite, Frobisher, Cardium, Viking, Bakken, Torquay, Colony, Clearwater, Duvernay, and Scallion basins.

United States

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Revenue	**79,861**	41,984	90	**272,492**	185,058	47
Reportable segment profit (loss) before tax [1]	**9,445**	(2,442)	n.m.	**33,056**	7,393	n.m.

n.m. – not meaningful
[1] Includes adjustments to intercompany transactions.

PHX Energy's US segment successfully maintained strong activity levels throughout the 2021-year as the industry activity continued to improve and the division achieved the second highest fourth quarter and annual US revenue in the Corporation's history, with the highest being achieved in the same 2014-periods. For the three-month period ended December 31, 2021, US revenue increased by 90 percent to $79.9 million as compared to $42 million in the 2020-quarter. For the year ended December 31, 2021, US revenue grew 47 percent to $272.5 million from $185.1 million in 2020. The strong revenue improvement was driven by the superior performance of PHX Energy's premium equipment, specifically Velocity, Atlas and PowerDrive Orbit RSS, and increasing demand for these technologies and the efficiencies they deliver. To address the growing demand, PHX Energy expanded its fleet of premium technologies in the US, particularly the number of PowerDrive Orbit RSS which began the year with 18 systems and ended the year with a fleet of 33. The larger fleet of PowerDrive Orbit RSS helped support the overall increase in activity and average revenue per day in the 2021-periods.

In the 2021-quarter, operating days improved by 49 percent to 3,783 days as compared to 2,546 days in the corresponding 2020-quarter. In comparison, industry activity grew 80 percent with the average number of horizontal and directional rigs running per day climbing to 561 in the fourth quarter of 2021 from 311 rigs in the comparative 2020-quarter (Source: Baker Hughes). For the year-ended December 31, 2021, the US segment's operating days were 14,041 days, compared to 10,492 days in the 2020-year; an increase of 34 percent. In comparison, the US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, grew by 11 percent to 456 rigs in 2021 from 412 rigs in 2020 (Source:

Baker Hughes). During the 2021-year, Phoenix USA was active in the Permian, Eagle Ford, SCOOP/STACK, Marcellus, Bakken, and Niobrara basins.

In the 2021 three-month period, the average revenue per day, excluding the Corporation's US motor rental division, rose to $19,895, an increase of 25 percent compared to $15,977 in the relative 2020-quarter. Omitting the impact of foreign exchange, the average revenue per day, excluding the Corporation's motor rental division, increased by 29 percent quarter-over-quarter. For the year ended December 31, 2021, the average revenue per day, excluding the Corporation's US motor rental division, was $18,413 an increase of 9 percent in comparison to $16,857 in 2020. The growth in the average revenue per day was offset by a weakening in the US dollar. Omitting the impact of foreign exchange, the average revenue per day, excluding the Corporation's motor rental division, increased by 17 percent year-over-year.

For the three-month period and year ended December 31, 2021, the US segment realized reportable segment income before tax of $9.4 million and $33.1 million, respectively, compared to the corresponding 2020-periods when the US segment had reportable segment loss before tax of $2.4 million in the fourth quarter and reportable segment profit before tax of $7.4 million for the 2020-year. The improved profitability in both 2021-periods was mainly due to higher drilling activity, increased deployment of the Corporation's high performance technologies, and $5.1 million in government grants through the CARES Act that were recognized in the first half of 2021. No government grants were received in the fourth quarter of 2021.

International

(Stated in thousands of dollars)

	Three-month periods ended December 31,			Years ended December 31,		
	2021	2020	% Change	**2021**	2020	% Change
Revenue	**3,026**	2,033	49	**9,868**	12,313	(20)
Reportable segment profit (loss) before tax	**361**	(647)	n.m.	**(650)**	(2,094)	n.m.

n.m. – not meaningful

For the three-month period ended December 31, 2021, the international segment's revenue was $3 million as compared to $2 million in the 2020-quarter, an increase of 49 percent. For the year ended December 31, 2021, the international segment's revenue was $9.9 million as compared to $12.3 million, a decrease of 20 percent. During the later part of 2021 the Russian division experienced a recovery in drilling activity and this led to improved international revenue in the fourth quarter.

For the three-month period ended December 31, 2021, the Russian division's revenue was $2.9 million, 44 percent higher than the $2 million of revenue in the corresponding 2020-quarter. The division achieved 316 operating days in the 2021-quarter, which is 121 percent greater than the 143 days in the 2020-quarter. For the year ended December 31, 2021, Russian revenue was $9.8 million, 20 percent lower compared to the $12.3 million of annual revenue in 2020. The Russia division generated 934 operating days in the 2021-year, which is 28 percent lower than the 1,304 days in 2020. The effects of the COVID-19 pandemic continued to impact the Russian division's drilling activity in the first half of the 2021-year; however, as the global energy market recovered, drilling activity in the Russian segment improved as well in the second half of the 2021-year.

Throughout 2021, due to economic uncertainties and reduced local drilling activity levels, PHX Energy's operations in Albania continued to be suspended. In the fourth quarter of 2021, the Albania division realized revenue of $0.1 million to recuperate costs of keeping personnel and equipment on standby. Drilling activity and operations in the Albania division are anticipated to restart in early 2022.

In the 2021 three-month period, the international segment generated reportable segment profit before tax of $0.4 million compared to reportable segment loss before tax of $0.6 million in the 2020-period. For the year-ended December 31, 2021, the international segment reduced its reportable segment loss before tax to $0.7 million from $2.1 million in the corresponding 2020-year. The positive margin in the 2021-quarter and reduced losses year-over-year primarily resulted from the improvement in the Russian division's drilling activity in the second half of 2021.

Liquidity

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
Funds from operations[1]	**14,302**	6,676	**51,839**	36,106

	Dec. 31, '21	Dec. 31, '20
Working capital[1]	**55,083**	57,034

For the quarter and year-ended December 31, 2021, funds from operations were $14.3 million and $51.8 million, respectively, as compared to $6.7 million and $36.1 million in the comparable 2020-periods. The improvement in funds from operations in both 2021-periods was primarily attributed to higher activity levels and average consolidated revenue per day that resulted in improved operating margins relative to the same 2020-periods.

As at December 31, 2021, the Corporation had working capital of $55.1 million, a decrease of $1.9 million from the $57 million reported at December 31, 2020. The decreased working capital at December 31, 2021 was mainly due to the significant increase in trade and other payables that resulted from increased activity, capital expenditures, and liabilities associated with

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cash-settled share-based compensation. The increase in trade and other payables was partially offset by the increase in trade and other receivables that resulted from revenue growth in the 2021-quarter.

Cash Flow and Dividends

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

In light of the Corporation's balance sheet strength and improving adjusted EBITDA, the Board have approved another 50 percent increase in quarterly dividends from $0.05 per common share to $0.075 per common share effective for the dividend payable April 18, 2022.

The Board previously approved a 100 percent increase to the Corporation's quarterly dividend from $0.025 per common share to $0.05 per common share, effective for the dividend payable October 15, 2021.

For the three-month period and year ended December 31, 2021, dividends of $2.5 million and $6.3 million, respectively, were financed from the Corporation's funds from operations. No dividends were paid in the 2020-year.

Investing Activities

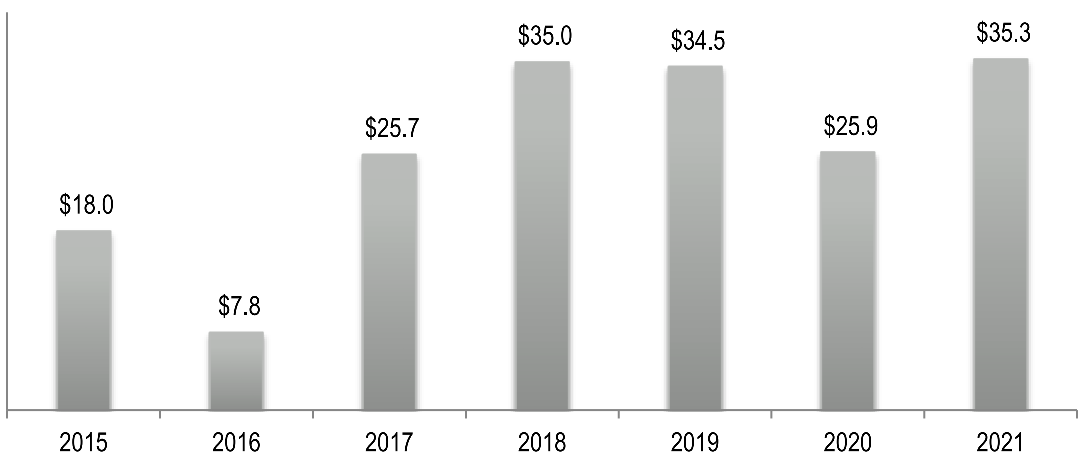
Net cash used in investing activities for the year ended December 31, 2021 was $23.6 million as compared to $19.1 million in 2020. During 2021, the Corporation spent $35.3 million (2020 - $25.9 million) on capital expenditures directed towards drilling and other equipment and received proceeds of $12.4 million (2020 - $7.4 million) primarily from involuntary disposal of drilling equipment in well bores. The 2021 expenditures comprised of:

- $13.2 million in downhole performance drilling motors;
- $11.3 million in MWD systems and spare components; and
- $10.8 million in RSS tools, machining and equipment, and other assets.

The capital expenditure program undertaken in the year was financed from cash flow from operating activities. Of the total capital expenditures in the 2021-year, $23.1 million was used to grow the Corporation's fleet of drilling equipment and the remaining $12.2 million was used to maintain the current fleet of drilling and other equipment.

The change in non-cash working capital balances of $4.2 million (source of cash) for the year ended December 31, 2021, relates to the net change in the Corporation's trade payables that are associated with the acquisition of capital assets. This compares to a $0.6 million (use of cash) for the year ended December 31, 2020.

Capital Expenditures



In 2021, the Corporation continued to preserve cash flows, however, with the rebound in commodity prices to pre-pandemic levels and to strategically address global supply chain issues, capital spending was increased primarily to expand the Corporation's fleet of high performance technologies including its Atlas motors, Velocity systems, and PowerDrive Orbit RSS tools.

Investments

In addition to the acquisition of drilling and other equipment, the Corporation made another strategic investment by acquiring a minor equity position in DEEP, a geothermal power developer. The investment in DEEP provides a potential opportunity for the Corporation to diversify its business to include renewable energy projects, provide drilling expertise to the project and increase the focus on long term sustainable growth.

Financing Activities

For the year ended December 31, 2021, net cash used in financing activities was $22.7 million as compared to $33.6 million in 2020. In the 2021-year:

- 1,960,788 common shares were repurchased and cancelled for $8 million under the NCIBs;
- 1,662,537 common shares were purchased by an independent trustee in the open market for $7.5 million to be held in trust for the potential future settlement of restricted awards granted under the Corporation's RAP;
- dividends of $6.3 million were paid to shareholders;
- payments of $3.3 million were made towards lease liability; and,
- 976,067 common shares were issued from treasury for proceeds of $2.3 million upon the exercise of share options.

Capital Resources

As of December 31, 2021, the Corporation had nothing drawn on its syndicated and operating facilities, and a cash balance of $24.8 million. In addition, the Corporation had CAD $65 million and USD $15 million available from its credit facilities as at December 31, 2021. The credit facilities are secured by substantially all of the Corporation's assets and matures in December 2023.

As at December 31, 2021, the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at December 31, 2021**
Debt to covenant EBITDA	<3.0x	**n.m.**
Interest coverage ratio	>3.0x	**109.9**

n.m. – not meaningful

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, debt and equity. The 2022 capital budget is expected to be $47.7 million and is primarily dedicated to growing and maintaining the Velocity, RSS and Atlas fleets to meet increased demand anticipated in 2022.

These planned expenditures are expected to be financed from cash flow from operations, cash and cash equivalents, and / or the Corporation’s unused credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2022, 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, 2021, the Corporation has commitments to purchase drilling and other equipment for $35.6 million. Delivery is expected to occur within the first half of 2022.

Off-Balance Sheet Arrangements

The Corporation had no material off-balance sheet arrangements as at December 31, 2021 and 2020.

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.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Despite global energy prices returning to pre-pandemic levels and continual developments in vaccinations, the effects of the COVID-19 outbreak on the global economy remain. The volatile economic climate may have significant adverse impacts on the Corporation including, but not exclusively:

- material declines in revenue, utilization rates, and cash flows, as the Corporation's customers are concentrated in the oil and natural gas industry;
- declines in revenue and operating activities could result in increased impairment charges, inability to comply with debt covenants and restrictions in lending agreements, and reduced capital programs;
- ability to secure drilling equipment, materials for manufacturing, and other operational assets;
- timing and availability of equipment servicing, repairs, and maintenance;
- attracting and maintaining top-talent personnel;
- increased risk of non-payment of accounts receivable and customer defaults; and
- additional future restructuring charges as the Corporation aligns its structure and personnel to the dynamic environment.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time. Estimates and judgements made by management in the preparation of the consolidated financial statements have been difficult and are subject to a higher degree of measurement uncertainty during this volatile period.

Climate change, environmental, 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.

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

- 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 compensation expense; and,
- key assumptions used in the estimate of leases including valuation of right of use assets and lease liabilities.

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 CGU and specifically the non-financial assets within the CGU, are impaired. 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

Financial Instruments

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

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

Non-derivative financial assets

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

Equity investments in a company are designated as non-derivative financial assets measured at FVOCI as the investment is not held-for-trading and fair value changes are not reflective of the Corporation's operations. The investment asset is carried at fair value on the Consolidated Statement of Financial Position. Fair value will be considered level 3 under the fair value hierarchy and will require management to assess information available, which may include private placements, available financial statement information and other available market data.

Financial Instruments

Credit Risk

The Corporation is exposed to normal credit risks of its customers that exist within the oil and natural gas exploration and development industry. The Corporation's credit risk associated with these customers can be directly impacted by a decline in economic conditions, which would impair the customers' ability to satisfy their obligations to the Corporation. During the year ended December 31, 2021, one customer comprised 27 percent of the total revenue (2020 - 9 percent of revenue). The customer's revenue is reported within the US operating segment.

As at December 31, 2021, the aging of trade and other receivables that were not impaired was as follows:

(Stated in thousands of dollars)	**2021**
Neither past due nor impaired	**$ 52,398**
Past due 1-30 days	**19,331**
Past due 31-60 days	**3,929**
Past due 61-90 days	**671**
Past due over 90 days	**149**
	$ 76,478

The Corporation's standard customer payment terms are 30 days after job completion or invoice issuance date, after which, the balance becomes past due. All accounts receivable balances that are past due for more than 90 days and were not impaired represented less than 1 percent or approximately $0.1 million of total receivables on the statement of financial position at December 31, 2021. Management believes that the unimpaired amounts that are past due are still collectible in full, based on historic payment behavior and extensive analysis of customer credit risk. Management has provided an allowance of $0.3 million for all amounts it considers uncollectable at December 31, 2021 (2020 - $1.3 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, 2021:

(Stated in thousands of dollars)	2022	2023	2024	2025	2026 and after
Drilling and other equipment purchase commitments	35,553	-	-	-	-
Trade and other payables	80,362	-	-	-	-
Dividends payable	2,482	-	-	-	-
Lease payments	6,730	5,155	4,951	4,615	14,025
	125,127	5,155	4,951	4,615	14,025

Fair Values of Financial Instruments

The Corporation has designated its trade and other payables and dividends payable 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 approximate their fair value due to the relatively short periods to maturity of the instruments.

Equity investments in a company are designated as non-derivative financial assets measured at FVOCI as the investment is not held-for-trading and fair value changes are not reflective of the Corporation's operations. The investment asset is carried at fair value on the Consolidated Statement of Financial Position. Fair value will be considered level 3 under the fair value hierarchy and will require management to assess information available, which may include private placements, available financial statement information and other available market data.

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 variable interest long-term debt which exposes it to fluctuations in cash interest payment amounts.

For the year ended December 31, 2021, the Corporation did not incur any loans and borrowings except for nominal overdraft and as such, interest rate risk exposure for the Corporation in the fiscal year was minimal.

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 and Russia, the Corporation has an exposure to foreign currency exchange rates. The carrying values of Canadian dollar, US dollar and Russian ruble ("RUB") denominated monetary assets and liabilities and earnings are subject to foreign exchange risk. For the year ended December 31, 2021, foreign exchange losses of $0.1 million (2020 – $0.1 million) resulted mainly from fluctuations in the CAD-USD exchange rates. The Corporation reviews options with respect to managing its foreign exchange risk periodically.

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

As at December 31, 2021	**CAD**	**USD**	**RUB**
Cash and cash equivalents	**-**	**16,154,394**	**76,601,759**
Trade and other receivables	**-**	**33,895,398**	**115,829,849**
Trade and other payables	**-**	**(21,403,981)**	**(37,343,137)**
Intercompany payables	**(3,120,538)**	**-**	**-**
Statement of financial position exposure	**(3,120,538)**	**28,645,811**	**155,088,471**

As at December 31, 2020	CAD	USD	RUB
Cash and cash equivalents	-	9,369,910	82,727,418
Trade and other receivables	-	21,397,572	83,911,812
Trade and other payables	-	(11,180,014)	(16,018,866)
Intercompany receivables	3,371,075	-	-
Intercompany payables	(969,679)	-	-
Statement of financial position exposure	2,401,396	19,587,468	150,620,364

The following significant exchange rates applied during the year ended December 31:

	Average Rate		December 31, Close Rate	
	2021	2020	**2021**	2020
USD	**1.2537**	1.3412	**1.2678**	1.2732
RUB	**58.7767**	53.8048	**58.0230**	57.7289

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

Gain (Loss)		**2021**		2020
CAD (10% strengthening)	**$**	**(246,138)**	$	188,611
USD (10% strengthening)		**247,861**		427,236

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 lessened. Management has identified herein certain key risks and uncertainties associated with PHX Energy's business that could impact financial results. More detailed disclosure of these risk factors and additional risk factors that could affect the Corporation are included in the Corporation's most recently filed AIF under the heading "*Risk Factors*", which is available under the Corporation's profile at www.sedar.com. Such risks include, but are not limited to:

Impact of Pandemics - COVID-19

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

While the duration and full impact of the COVID-19 pandemic is not yet known, effects of COVID-19 may also include access to materials and services, increased employee absenteeism from illness, and temporary closures of the Corporation's facilities.

The extent to which the Corporation's operational and financial results are affected by COVID-19 will depend on various factors and consequences beyond its control such as the duration and scope of the pandemic; additional actions taken by business and government in response to the pandemic, and the speed and effectiveness of responses to combat the virus. Additionally, COVID-19 and its effect on local and global economic conditions stemming from the pandemic could also aggravate the other risk factors identified herein, the extent of which is not yet known.

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 near-term 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 current conditions in the oil and natural gas industry have negatively impacted the ability of, and the cost to, companies involved in the oil and natural gas industry to access additional financing. The inability of the Corporation to access sufficient and acceptable capital for its operations in a timely manner could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Inflation and Cost Management

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

Third Party Credit Risk

The Corporation is exposed to the credit risks of its customers that exist within the oil and natural gas exploration and development industry. As a result of the challenging oil and natural gas market conditions, particularly in Canada, 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 economic conditions, which would impair a customer's ability to satisfy their obligations to the Corporation and therefore could materially adversely effect the Corporation's business, financial condition, results of operations, receivable and prospects.

Environmental Risks

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

Climate Change

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

Transition Risks

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

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

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

Physical Risks

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

Alternatives to and Changing Demand for Petroleum & Petroleum Based Products

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

Reliance on a Skilled Workforce and Key Personnel

The success of the Corporation will be dependent upon the recruitment and retention of a skilled workforce and key personnel. Losing the services of such persons could have a material adverse effect on the business and operations of the Corporation. The Corporation does not have any key personnel insurance in effect. The contributions of the existing management team and other key personnel to the immediate and near-term operations of the Corporation are likely to be of central importance. Competition for qualified personnel in certain sectors of the oil and natural gas services industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

Availability and Cost of Equipment and Development of New Technology

The industry in which the Corporation operates is categorized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. The ability of the Corporation to compete and expand its business is dependent upon it having access to certain industry-leading equipment and specialized components at a reasonable cost, as well as upon its ability to develop or acquire new competitive technology. There can be no assurance that the Corporation will be able to respond to the competitive pressures of those companies with greater financial and technical resources and implement new technologies on a timely basis, at an acceptable cost, or at all. The Corporation purchases equipment and materials from various suppliers in the oil and natural gas drilling service industry. There can be no assurance that these sources for equipment and materials will be maintained or available at acceptable cost. If such equipment is not available, and is not available from any other source, the Corporation's ability to compete may be impaired. If the Corporation is unable to continue to offer advanced and industry leading technologies to its customers, or is unsuccessful in implementing certain technologies, its business and results of operations could also be adversely affected.

Competition

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

Oil and Natural Gas Industry Risk & Insurance

PHX Energy's operations are subject to the risks normally incident to the exploration, development and operation of oil and natural gas properties and the drilling of oil and natural gas wells, including, without limitation, encountering unexpected formations or pressures, equipment defects, malfunction, failures, blow-outs, loss of well control, leaks of sour natural gas, the release of contaminants into the environment, cratering, fires, explosions, or other acts of nature, any of which could result in work stoppages, personal injuries, loss of life or damage to or destruction of equipment, facilities and property of PHX Energy and others, and the imposition of fines and penalties pursuant to environmental legislation. These risks and hazards could expose PHX Energy to substantial liability. PHX Energy maintains insurance coverage that it believes to be adequate and customary in the industry, such as all risk property insurance covering property, contractors equipment, motor truck cargo, , fire, limited first party pollution clean-up and limited first party blow-out and cratering; marine cargo insurance; commercial general liability insurance covering third party bodily injury and property damage including sudden and accidental pollution coverage and underground resources and equipment; and automobile insurance. While PHX Energy maintains such insurance, it may not be adequate to cover all 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 the foregoing occurring, 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.

Geopolitical Risks

The Corporation's results can be adversely impacted by political, legal, or regulatory developments in Canada, the US and elsewhere that affect local operations and local and international markets. Changes in government, government policy or regulations, sanctions, changes in law or interpretation of settled law, third-party opposition to industrial activity generally or projects specifically, and duration of regulatory reviews could impact the Corporation's existing or future operations. 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 and adversely impact the Corporation's results.

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

A change in federal, provincial, state or municipal governments in Canada and the US may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry including the balance between economic development and environmental policy. In Canada particularly, the oil and natural gas industry has become an increasingly politically polarizing topic, which has resulted in a rise in civil disobedience surrounding oil and natural gas development—particularly with respect to infrastructure projects. Protests, blockades and demonstrations have the potential to delay and disrupt the Corporation's activities.

Foreign Operations

The Corporation will conduct a certain portion of its business in the US, Russia, and Albania. Any change in government policies could have a significant impact on business. Risks of foreign operations include, but are not necessarily limited to foreign currency exchange rate fluctuations, changes of laws affecting foreign ownership, government participation, taxation, royalties, duties, inflation, repatriation of earnings, social unrest or civil war, corruption, acts of terrorism, extortion or armed conflict and uncertain political and economic conditions resulting in unfavourable government actions such as sanctions and unfavourable legislation or regulation. In particular, recent events and rising tensions related to the Russian and Ukraine conflict could result in sanctions or other actions that may have an impact on the Corporation’s operations in Russia. In 2021 the Russian division represented 3 percent of our consolidated revenue and less than 1 percent of adjusted EBITDA. 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.

Changing Investor Sentiment

A number of factors, including the effects of the use of hydrocarbons on climate change, the impact of oil and natural gas operations on the environment, environmental damage relating to spills of petroleum products during production and transportation, Indigenous rights and gender balance, have affected certain investors' sentiments towards investing in the oil and natural gas industry and certain corporations generally. Any reduction in the investor base interested or willing to invest in the oil and natural gas industry and more specifically, the Corporation, may result in limiting the Corporation's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Corporation's securities even if the Corporation's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause a decrease in the value of the Corporation's assets which may result in an impairment charge.

Dividends

The amount of future cash dividends paid by the Corporation, if any, will be subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time-to-time, including, among other things, fluctuations in commodity prices, capital expenditure requirements, debt service requirements, operating costs, foreign exchange rates 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 of the Corporation may change from time-to-time and, as a result, future cash dividends could be reduced or suspended entirely.

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

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

Market Price

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

Reputational Risk

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

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

Management of Growth

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

Information Technology Systems, Cyber-Security and Social Media

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

Further, the Corporation is subject to a variety of information technology and system risks as a part of its operations including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities or the Corporation's competitive position. In addition, cyber phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If the Corporation becomes a victim to a cyber phishing attack it could result in a loss or theft of the Corporation's financial resources or critical data and information, or could result in a loss of control of the Corporation's technological infrastructure or financial resources. The Corporation's employees are often the targets of such cyber phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses or other malware through "Trojan horse" programs 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 applies technical and process controls in line with industry-accepted standards to protect its information, assets and systems. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Corporation's performance and earnings, as well as its reputation, and any damages sustained may not be adequately covered by the Corporation's current insurance coverage, or at all. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition and results of operations.

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

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Corporate Governance

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

Disclosure Controls and Procedures

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

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P. Based on that evaluation, the Certifying Officers have concluded that the Corporation's DC&P were effective as at December 31, 2021.

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, 2021.

There were no changes in the Corporation's ICFR that occurred during the period beginning on October 1, 2021 and ended on December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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

Outstanding Corporation Share Data

(In thousands of shares)	**As at February 23, 2022**
Common shares outstanding, excluding shares held in trust	48,242,293
Common shares held in trust [(1)]	1,655,306
Total common shares outstanding	49,897,599
Dilutive securities:	
Options	2,597,800
Corporation shares – diluted	52,495,399

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

Selected Annual Financial Information

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

(Stated in thousands of dollars except per share amounts)

Years ended December 31,	**2021**	2020	2019
Revenue	**349,920**	246,402	362,057
Net earnings (loss)	**22,725**	(7,771)	(2,213)
Net earnings (loss) per share – basic	**0.46**	(0.15)	(0.04)
Net earnings (loss) per share– diluted	**0.44**	(0.15)	(0.04)
Dividends declared per share	**0.15**	0.025	-
Net Debt [1][2]	**(24,829)**	(25,746)	14,710
Total assets	**262,494**	216,541	277,253

Global economic activities set a new precedence in March 2020 when the World Health Organization declared the novel coronavirus or COVID-19 to be a worldwide pandemic. Following the declaration, commercial and industrial activities plummeted as authorities implemented emergency procedures on combatting the spread of the virus. As a result, industry activity severely contracted resulting in significant declines in operating days. Revenue declined 32 percent from 2019 to 2020 and consequently, the Corporation profitability suffered as net earnings further diminished in 2020. The 2020 net loss included impairment charges on goodwill and drilling and other equipment, which were partially offset by government grant assistance received through the CEWS and CERS programs.

Effects of COVID-19 continued to linger in 2021; however, with developments in vaccination and better understanding of the virus, the global economy began its path to recovery. In 2021, the Corporation's net earnings increased to $22.7 million, primarily driven by revenue growth of 42 percent from 2020 to 2021. Notwithstanding, volatility and uncertainties continued to exist with businesses facing historic inflationary pressures and supply chain issues. Taking a proactive stance, the Corporation focused its strategy on early acquisition of drilling equipment in order to take advantage of the rising demand for energy products while making an effort to avoid resource shortages. In a fine balancing act, the goal was to exit the 2021-year with a strong balance sheet position while ensuring drilling equipment will be available to meet the forecasted demands of 2022. As at December 31, 2021, PHX Energy's total assets increased to $262.5 million primarily due to higher trade receivables that resulted from increased revenues, and greater inventories and drilling equipment as the Corporation prepares to address the increased global demand for energy products. The Corporation also ended the 2021-year with no loans or borrowings outstanding and a cash and cash equivalents balance of $24.8 million.

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(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to non-GAAP measures section that follows the Outlook section of this MD&A.
(2) As at December 31, 2021, the Corporation had no bank loans outstanding and was in a cash positive position.

Summary of Quarterly Results

(Stated in thousands of dollars except per share amounts)

	Dec-21	**Sept-21**	**Jun-21**	**Mar-21**	Dec-20	Sept-20	Jun-20	Mar-20
Revenue	**105,428**	**96,548**	**77,838**	**70,106**	56,838	39,776	46,769	103,019
Earnings (loss)	**8,652**	**4,829**	**4,379**	**4,865**	1,954	(1,505)	(4,899)	(3,321)
Earnings (loss) per share – basic	**0.18**	**0.10**	**0.08**	**0.10**	0.04	(0.03)	(0.09)	(0.06)
Earnings (loss) per share – diluted	**0.17**	**0.09**	**0.08**	**0.10**	0.04	(0.03)	(0.09)	(0.06)
Dividends paid	**2,505**	**1,260**	**1,260**	**1,266**	-	-	-	-
Cash and cash equivalents	**24,829**	**24,917**	**21,026**	**23,468**	25,746	18,889	14,628	7,180
Operating facility	**-**	**-**	**-**	**-**	-	-	-	160
Loans and borrowings	**-**	**-**	**-**	**-**	-	-	-	23,419

Outlook

In 2021 we achieved strong operational and financial results and we are proud of our performance and team that makes each of these achievements possible. Improved industry conditions are aiding the recovery of our share price and we continue to leverage our balance sheet strength to reward shareholders in as many ways as we can.

We are in a favorable phase of the commodity cycle, and with the improved industry conditions in the first quarter, we continue to see strong demand for our high performance fleet in North America. We anticipate that this momentum will continue in both Canada and the US throughout 2022. We have a proven track record of setting new drilling records and we are well positioned to deliver on operators' mandate to drill faster and more efficiently as we continue to allocate our capital expenditures towards our high performance technologies. With our 2022 capital expenditures we intend to increase our Atlas fleet by 150 motors and our Power Drive Orbit RSS fleet by 9 systems. We have leveraged our enviable financial position to proactively order materials and equipment to mitigate the supply chain disruption that became evident in the second half of 2021. Even with these efforts there were some delays and we experienced some shortages in the first quarter of the year. Our team is working diligently to manage our fleet utilization to ensure we are capitalizing on opportunities to grow our market share.

The strengthening economic and commodity price environment that is driving increased activity in our North American operations in recent months is also having a positive impact on our international regions. Albanian operations, which have been suspended since the onset of the pandemic, are commencing in the first quarter, and we expect to be active on one rig in March. Additionally, we are seeing improved activity levels in Russia, and at this time we are continuing operations in the region as the agreement for the sale of this division was formally terminated. We expect to strengthen profitability in Russia in 2022 and continue to explore alternative opportunities for the sale of the division. Currently there is volatility in Russia due to the geopolitical environment and we are proactively monitoring the situation. In 2021 the Russian division represented 3 percent of our consolidated revenue and less than 1 percent of adjusted EBITDA. We believe our greatest opportunity for international growth remains in the MENA region as this market competes with North America for the most active in the world. As a technology provider to NESR, we are awaiting the award of tenders submitted, as the result of Atlas and Velocity being certified for operation in the region. We are optimistic that the tenders will be successful based on the strong operational performance demonstrated in the qualification period and that we will see a gradual increase to revenue generating activity in the region.

We acknowledge the importance that our stakeholders place on responsible, ethical and fair business practices, including those related to sustainability and environmental stewardship. We are committed to transparently communicating our performance in these areas and anticipate releasing our second ESG and Sustainability Report in the upcoming weeks. We continue to evaluate how we can reduce our operation's environmental impact as well as contribute to industry change. We are working to align our ESG strategy and reporting with SASB and have provided valuable enhancements to our disclosure in the 2021 report.

In 2022 we will continue our strategy of creating a strong position as a technology leader, focusing on the most lucrative drilling markets globally, retaining the best people in the industry and remaining disciplined in our cost management. We believe these areas of focus are the drivers that have led us to outperform operationally and financially, which in turn has allowed us to deliver on our commitment to our shareholders.

Michael Buker, President
February 23, 2022

Non-GAAP Measures

Adjusted EBITDA

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

Adjusted EBITDA excluding share-based compensation is calculated by adding cash-settled and equity-settled share-based compensation to adjusted EBITDA.

The following is a reconciliation of net earnings to adjusted EBITDA and adjusted EBITDA excluding share-based compensation:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
Net earnings (loss):	**8,652**	1,955	**22,725**	(7,771)
Add:				
Depreciation and amortization drilling and other equipment	**6,898**	6,660	**25,860**	29,454
Depreciation and amortization right-of-use asset	**837**	838	**3,336**	3,561
Provision for income taxes	**(511)**	(1,540)	**3,558**	(1,407)
Finance expense	**117**	108	**496**	769
Finance expense lease liability	**516**	562	**2,125**	2,361
Unrealized foreign exchange (gain) loss	**181**	(117)	**269**	(17)
Severance	**-**	6	**835**	2,039
Loss on remeasurement	**1,178**	-	**1,178**	-
Impairment loss	**-**	-	**-**	10,730
Adjusted EBITDA	**17,868**	8,472	**60,382**	39,719
Add:				
Cash-settled share-based compensation	**2,972**	3,038	**12,889**	1,889
Equity-settled share-based compensation	**49**	28	**384**	242
Adjusted EBITDA excluding share-based compensation	**20,889**	11,538	**73,655**	41,850

Adjusted EBITDA per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of adjusted EBITDA per share - dilutive is based on the adjusted EBITDA as reported in the table above divided by the diluted number of shares outstanding as quantified in Note 11(c) in the Notes to the Consolidated Financial Statements.

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

Adjusted EBITDA excluding share-based compensation as a percentage of revenue is calculated by dividing the adjusted EBITDA excluding share-based compensation as reported in the table above by revenue as stated on the Consolidated Statements of Comprehensive Earnings (Loss).

Funds from Operations

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
Cash flows from operating activities	**13,777**	10,131	**45,431**	67,911
Add (deduct):				
Changes in non-cash working capital	**376**	(3,500)	**6,312**	(31,776)
Interest paid	**52**	53	**206**	388
Income taxes paid (received)	**97**	(8)	**(110)**	(417)
Funds from operations	**14,302**	6,676	**51,839**	36,106

Funds from operations per share - diluted is calculated using the treasury stock method whereby deemed proceeds on the exercise of the share options are used to reacquire common shares at an average share price. The calculation of funds from operations per share - diluted is based on the funds from operations as reported in the table above divided by the diluted number of shares outstanding as quantified in Note 11(c) in the Notes to the Consolidated Financial Statements

Free Cash Flow

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
Cash flows from operating activities	**13,777**	10,131	**45,431**	67,911
Add (deduct):				
Changes in non-cash working capital	**376**	(3,500)	**6,312**	(31,776)
Interest paid	**52**	53	**206**	388
Income taxes paid (received)	**97**	(8)	**(110)**	(417)
Maintenance capital expenditures	**(3,963)**	(2,616)	**(12,226)**	(8,094)
Cash payment on leases	**(1,372)**	(1,347)	**(5,420)**	(5,416)
Free cash flow	**8,967**	2,713	**34,193**	22,596

Working Capital

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

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

(Stated in thousands of dollars)

	Years ended December 31,	
	2021	2020
Current assets	**141,159**	100,204
Deduct:		
Current liabilities	**(86,076)**	(43,170)
Working capital	**55,083**	57,034

Net Debt

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

The following is a reconciliation of operating facility, loans and borrowings, and cash and cash equivalents to net debt:

(Stated in thousands of dollars)

	Years ended December 31,		
	2021	2020	2019
Operating facility	-	-	11,396
Loans and borrowings	**-**	-	13,896
Total loans and borrowings	**-**	-	25,292
Deduct:			
Cash and cash equivalents	**(24,829)**	(25,746)	(10,582)
Net debt	**(24,829)**	(25,746)	14,710

Gross Profit as a Percentage of Revenue

Gross profit as a percentage of revenue is defined as the Corporation's gross profit divided by revenue and is used to assess operational profitability. This non-GAAP measure 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, and gross profit to gross profit as a percentage of revenue:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
Revenue	**105,428**	56,838	**349,920**	246,402
Direct costs	**(84,276)**	(49,227)	**(278,265)**	(213,064)
Gross profit	**21,152**	7,611	**71,655**	33,338
Gross profit as a percentage of revenue	**20%**	13%	**20%**	14%

Gross profit as a percentage of revenue excluding depreciation and amortization is calculated by taking gross profit as stated on the Consolidated Statements of Comprehensive Earnings (Loss), adding back depreciation and amortization and depreciation and amortization right-of-use assets as stated on the Consolidated Statements of Cash Flows and dividing the sum by revenue as stated on the Consolidated Statements of Comprehensive Earnings (Loss).

SG&A Costs Excluding Cash and Equity-Settled Share-Based Compensation as a Percentage of Revenue

SG&A costs excluding cash and equity-settled share-based compensation as a percentage of revenue is defined as the Corporation's SG&A costs excluding cash and equity-settled 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 measure 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 cash and equity-settled 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, cash-settled share-based compensation, equity-settled share-based compensation, and revenue to SG&A costs excluding cash and equity-settled share-based compensation as a percentage of revenue:

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
SG&A Costs	**13,510**	8,200	**46,710**	28,738
Deduct:				
Cash-settled share-based compensation	**(2,972)**	(3,038)	**(12,889)**	(1,889)
Equity-settled share-based compensation	**(49)**	(28)	**(384)**	(242)
	10,489	5,134	**33,437**	26,607
Revenue	**105,428**	56,838	**349,920**	246,402
SG&A costs excluding cash and equity-settled share-based compensation as a percentage of revenue	**10%**	9%	**10%**	11%

Definitions

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

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INDEPENDENT AUDITORS' 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, 2021 and December 31, 2020
- the consolidated statements of comprehensive earnings (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' 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, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Description of the matter

We draw attention to Note 2(d), Note 3(h)(ii) and Note 5(a) to the financial statements. The carrying amounts of the Entity's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. The assessment of indicators of impairment is based on management's judgment of whether there are internal and external factors that would indicate that a cash generating unit and specifically the non-financial assets within the CGU, are impaired. These factors include revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") forecasts, expected industry activity levels, commodity price developments and market capitalization. As at December 31, 2021, management determined no indicators of impairment existed for the Canadian and US CGUs.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

We compared the Entity's 2021 actual revenues and earnings before interest, taxes, depreciation and amortization for the Canadian and US CGUs to the 2021 budgeted revenues and EBITDAs to assess the Entity's ability to accurately forecast.

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

- comparing internal and external factors, including expected industry activity levels and commodity price developments analyzed by the Entity to relevant external market data or internal source documents

- comparing the Entity's budgeted 2022 revenues and EBITDAs for the Canadian and US CGUs to 2021 actual revenues and EBITDAs and considering the impact of changes in conditions and events affecting the Canadian and US CGUs
- evaluating the changes in market capitalization over the year and its impact on the Entity's impairment indicator analysis.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Annual Report"

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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 auditors' auditors' 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 auditors' 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 auditors' report is Jason Stuart Brown.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
February 23, 2022

Consolidated Statements of Financial Position

		December 31, 2021		(re-presented) December 31, 2020
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**24,828,830**	$	25,745,911
Trade and other receivables (Note 18a)		**76,478,093**		44,687,494
Inventories (Note 4)		**36,691,141**		27,485,601
Prepaid expenses		**2,814,272**		2,065,466
Current tax assets (Note 10)		**346,554**		219,400
Total current assets		**141,158,890**		100,203,872
Non-current assets:				
Drilling and other long-term assets (Note 5)		**76,363,001**		70,885,739
Right-of-use asset (Note 20)		**25,708,177**		28,956,908
Intangible assets (Note 7)		**16,137,024**		16,204,673
Investments (Note 8)		**3,000,500**		-
Deferred tax assets (Note 10)		**126,133**		289,542
Total non-current assets		**121,334,835**		116,336,862
Total assets	**$**	**262,493,725**	$	216,540,734
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Trade and other payables	**$**	**80,361,673**	$	38,505,544
Lease liability		**3,232,503**		3,398,559
Dividends payable (Note 11d)		**2,482,060**		1,265,648
Total current liabilities		**86,076,236**		43,169,751
Non-current liabilities:				
Lease liability		**32,638,819**		35,698,084
Deferred tax liability (Note 10)		**9,346,426**		5,640,261
Total non-current liabilities		**41,985,245**		41,338,345
Equity:				
Share capital (Note 11a)		**235,463,414**		247,543,263
Contributed surplus		**9,462,091**		10,131,786
Deficit		**(121,721,790)**		(136,939,398)
Accumulated other comprehensive income		**11,228,529**		11,296,987
Total equity		**134,432,244**		132,032,638
Total liabilities and equity	**$**	**262,493,725**	$	216,540,734

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Earnings (Loss)

Years ended December 31,		2021		(Re-presented) 2020
Revenue (Note 16)	$	**349,919,670**	$	246,401,990
Direct costs (Note 13)		**278,265,030**		213,064,045
Gross profit		**71,654,640**		33,337,945
Expenses:				
Selling, general and administrative expenses (Note 13)		**46,710,478**		28,737,739
Research and development expenses (Note 13)		**2,773,559**		1,943,713
Finance expense		**495,958**		769,430
Finance expense lease liability (Note 20)		**2,125,017**		2,361,078
Other income (Note 14)		**(6,732,615)**		(2,025,479)
Impairment loss (Note 5a and 6)		**-**		10,729,587
		45,372,397		42,516,068
Earnings (loss) from before income taxes		**26,282,243**		(9,178,123)
Provision for (recovery of) income taxes (Note 15)				
Current		**(237,023)**		(980,058)
Deferred		**3,794,631**		(426,908)
		3,557,608		(1,406,966)
Net earnings (loss)		**22,724,635**		(7,771,157)
Other comprehensive loss				
Foreign currency translation		**(68,458)**		(2,879,860)
Total comprehensive earnings (loss)	$	**22,656,177**	$	(10,651,017)
Earnings (loss) per share – basic (Note 11c)	$	**0.46**	$	(0.15)
Earnings (loss) per share – diluted (Note 11c)	$	**0.44**	$	(0.15)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

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

Year Ended December 31, 2020	Share Capital Number	Share Capital Amount ($)	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, December 31, 2019	53,246,420	$ 251,815,183	$ 10,854,650	$ 14,176,847	$ (127,902,593)	$ 148,944,087
Issuance of share capital on exercise of options (Note 11a)	50,000	77,500	-	-	-	77,500
Common shares repurchased and cancelled (Note 11a)	(2,670,500)	(3,796,095)	-	-	-	(3,796,095)
Share-based payments	-	-	241,853	-	-	241,853
Surrender value of options exercised (Note 11a)	-	(1,518,042)	-	-	-	(1,518,042)
Fair value of options exercised	-	964,717	(964,717)	-	-	-
Net loss	-	-	-	-	(7,771,157)	(7,771,157)
Foreign currency translation, net of tax	-	-	-	(2,879,860)	-	(2,879,860)
Dividends	-	-	-	-	(1,265,648)	(1,265,648)
Balance, December 31, 2020	50,625,920	$ 247,543,263	$ 10,131,786	$ 11,296,987	$ (136,939,398)	$ 132,032,638

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31,		**2021**		(Re-presented) 2020
Cash flows from operating activities:				
Net earnings (loss)	**$**	**22,724,635**	$	(7,771,157)
Adjustments for:				
Depreciation and amortization (Note 13)		**25,860,400**		29,453,878
Depreciation and amortization right-of-use asset (Note 13)		**3,336,282**		3,561,488
Provision for (recovery of) income taxes (Note 15)		**3,557,608**		(1,406,966)
Impairment loss (Note 5a and Note 6)		**-**		10,729,587
Loss on remeasurement (Note 14 and Note 23)		**1,177,546**		-
Unrealized foreign exchange loss (gain)		**268,985**		(16,836)
Net gain on disposition of drilling equipment (Note 14)		**(7,718,185)**		(3,756,022)
Equity-settled share-based payments (Note 12a)		**383,604**		241,853
Finance expense		**495,958**		769,430
Provision for (recovery of) bad debts (Note 14)		**(280,612)**		1,644,980
Provision for inventory obsolescence (Note 4 and Note 13)		**2,033,144**		2,655,625
Interest paid		**(206,155)**		(388,068)
Income taxes received		**109,345**		417,342
Change in non-cash working capital (Note 17)		**(6,312,039)**		31,776,282
Net cash from operating activities		**45,430,516**		67,911,416
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment		**12,363,604**		7,405,750
Acquisition of drilling and other equipment (Note 5b)		**(35,304,507)**		(25,857,406)
Acquisition of intangible assets (Note 7)		**(1,852,731)**		-
Acquisition of equity investment (Note 8)		**(3,000,500)**		-
Change in non-cash working capital (Note 17)		**4,164,905**		(648,472)
Net cash used in investing activities		**(23,629,229)**		(19,100,128)
Cash flows from financing activities:				
Repurchase of shares under the NCIB (Note 11a)		**(7,979,601)**		(3,796,095)
Purchase of shares held in trust (Note 11a)		**(7,500,000)**		-
Dividends paid to shareholders		**(6,290,612)**		-
Payments of lease liability		**(3,294,608)**		(3,054,801)
Proceeds from issuance of share capital (Note 11a)		**2,346,453**		77,500
Surrender value cash payment (Note 11a)		**-**		(1,518,042)
Repayment of operating facility		**-**		(11,395,835)
Repayment of loans and borrowings		**-**		(13,960,400)
Net cash used in financing activities		**(22,718,368)**		(33,647,673)
Net increase (decrease) in cash and cash equivalents		**(917,081)**		15,163,615
Cash and cash equivalents, beginning of year		**25,745,911**		10,582,296
Cash and cash equivalents, end of year	**$**	**24,828,830**	$	25,745,911

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

In Canadian dollars

1. Reporting Entity

PHX Energy Services Corp. ("PHX Energy" or the "Corporation") is a publicly-traded Corporation listed on the Toronto Stock Exchange ("TSX") under the symbol "PHX". The Corporation's registered office is at Suite 1400, 250 – 2nd Street SW Calgary, Alberta Canada.

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

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

2. Basis of Preparation

a) 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. Liabilities for cash-settled share-based payment arrangements are included in trade and other payables in the statement of financial position.

b) Functional and Presentation Currency

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

c) Use of Estimates

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

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

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

- key assumptions used in the valuation of drilling and other equipment not yet in use;
- estimated useful lives of drilling and other equipment and intangible assets;
- recognition of deferred tax assets based on estimates of the availability of future taxable profit against which carry-forward tax losses can be used;
- assumptions used in the valuation of investments;
- estimates and assumptions used in the valuation of inventory;
- estimate used in the valuation of accounts receivable;
- valuation of equity-settled and cash-settled share-based payments; and,
- key assumptions used in the estimate of leases including valuation of right of use assets and lease liabilities.

i. COVID-19

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. At at December 31, 2021, COVID-19 and resulting government responses continue to have a material impact on businesses worldwide. The challenging economic climate brought about by COVID-19 may have significant adverse impacts on the Corporation including, but not exclusively:

- material declines in revenue, utilization rates, and cash flows, as the Corporation's customers are concentrated in the oil and natural gas industry;
- declines in revenue and operating activities could result in increased impairment charges, inability to comply with debt covenants and restrictions in lending agreements, and reduced capital programs;
- increased risk of non-payment of accounts receivable and customer defaults; and
- additional future restructuring charges as the Corporation aligns its structure and personnel to the dynamic environment.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time. Estimates and judgements made by management in the preparation of the consolidated financial statements have been difficult and are subject to a higher degree of measurement uncertainty during this volatile period.

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

Climate change policy, environmental, 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.

d) Critical Judgments

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

3. Significant Accounting Policies

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

a) Basis of Consolidation

i. Business Combinations

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

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

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

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

ii. Subsidiaries

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

iii. Loss of Control

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

iv. Transactions Eliminated on Consolidation

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

v. Foreign Currency Transactions

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

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

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

vi. Foreign Operations

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

Foreign currency differences are recognized in other comprehensive earnings (loss) 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 (loss), and are presented within equity in accumulated other comprehensive income.

vii. Re-presentation of Comparatives

Subsequent to December 31, 2021, the Corporation terminated the preliminary agreement for the sale of the Russian division, Phoenix TSR LLC ("Phoenix TSR") (see Note 23). Accordingly, the comparative consolidated financial statements for the year ended December 31, 2020 have been re-presented to include the operations of Phoenix TSR as continuing operations.

b) Financial Instruments

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

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

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

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

iii. Financial Assets at Amortized Cost

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

iv. Non-derivative Financial Assets

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

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

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

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

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

v. Non-derivative Financial Liabilities

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

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

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

c) Share Capital

i. Common Shares

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

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

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

d) Drilling and Other Equipment

i. Recognition and Measurement

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

Cost is comprised of the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. Where material, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to be ready for use) are included in capitalized cost. Borrowing costs have not been material to the cost of assets for any period presented. The cost of self-constructed assets includes the cost of materials and any other costs directly attributable to bringing the assets to a working condition for their intended use. No borrowing costs were capitalized in 2021 and 2020.

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

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

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

ii. Subsequent Costs

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

iii. Depreciation

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

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

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

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

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

e) Intangible Assets and Goodwill

i. Goodwill

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

ii. Research and Development Costs

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

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

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

iii. Other Intangible Assets

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

iv. Subsequent Expenditures

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

v. Amortization

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

The estimated useful life is as follows:

Licenses	10 to 15 years

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

f) Assets Held for Sale

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

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

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

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

g) Inventories

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

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

h) Impairment

i. Financial Assets (Including Receivables)

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

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

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

ii. Non-Financial Assets

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

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

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

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

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

iii. Employee Benefits

Short-term employee benefits

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

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

Share-based payment transactions

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

The fair value of the amount payable to employees in respect of Retention Awards, which may be settled in cash or equity, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

i) Provisions

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

j) Revenue

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

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

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

k) Government Grants

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

For the year ended December 31, 2021, the Corporation recognized government grants of $3.6 million relating to the Canadian Emergency Wage Subsidy and Canadian Emergency Rent Subsidy programs, and USD $4.1 million relating to the Coronavirus Aid, Relief, and Economic Security program. For the year ended December 31, 2020, the Corporation reported $5.4 million in government grants relating to the Canadian Emergency Wage Subsidy and Canadian Emergency Rent Subsidy programs.

l) Statement of Compliance

The consolidated financial statements have been prepared in accordance with IFRS. Details of the Corporation's accounting policies, including changes during the year, are included in Note 3.

The consolidated financial statements were authorized for issue by the Board of Directors (the "Board") on February 23, 2022.

m) Leases

i. Definition of a Lease

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

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

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

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

ii. As a Lessee

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

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

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

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

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

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

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

iii. As a Lessor

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

n) Finance Income and Expense

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

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

o) 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.

p) 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 granted to employees.

q) Segment Reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by the

Corporation's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

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

4. Inventories

Inventories are mainly comprised of drilling and other equipment repair parts. In 2021, consumed repair parts, which are included in direct costs, amounted to $35.1 million (2020 - $23 million). For the year ended December 31, 2021, the Corporation recognized a provision for obsolete inventory of $2 million (2020 - $2.7 million).

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, 2021, management determined no indicators of impairment existed.

As at March 31, 2020, the Corporation determined indicators of impairment existed in the Canadian, US, and International CGUs due to challenges in the oil and natural gas industry as result of COVID-19. As such, an impairment test was performed in the operating segments resulting in a $1.4 million charge on the carrying value of drilling equipment in the Canadian CGU for the year ended December 31, 2020.

b) Acquisitions and Disposals

During the year ended December 31, 2021, the Corporation acquired assets with a cost of $35.3 million (2020 - $25.9 million).

Assets with a carrying amount of $4.6 million (2020 - $3.6 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of $7.7 million (2020 - $3.8 million), which is included in other income in the consolidated statement of comprehensive earnings (loss).

(Stated in thousands of dollars)

	Directional Drilling Equipment	EDR Equipment	Machinery and Equipment	Office and Computer Equipment	Development Costs	Vehicles	Total
Cost							
At January 1, 2021	**282,542**	**6,613**	**19,830**	**17,147**	**3,783**	**796**	**330,711**
Additions	**33,912**	**-**	**729**	**649**	**-**	**15**	**35,305**
Disposals	**(17,135)**	**-**	**(30)**	**(38)**	**-**	**(84)**	**(17,287)**
Loss on remeasurement	**(1,178)**	**-**	**-**	**-**	**-**	**-**	**(1,178)**
Effect of movement in exchange rate	**(943)**	**400**	**22**	**(8)**	**-**	**(4)**	**(533)**
At December 31, 2021	**297,198**	**7,013**	**20,551**	**17,750**	**3,783**	**723**	**347,018**
Accumulated Depreciation							
At January 1, 2021	**216,858**	**6,613**	**17,120**	**15,075**	**3,783**	**376**	**259,825**
Depreciation	**22,342**	**-**	**917**	**638**	**-**	**123**	**24,020**
Disposals	**(12,502)**	**-**	**(21)**	**(35)**	**-**	**(84)**	**(12,642)**
Effect of movement in exchange rate	**(941)**	**400**	**18**	**(24)**	**-**	**(1)**	**(548)**
At December 31, 2021	**225,757**	**7,013**	**18,034**	**15,654**	**3,783**	**414**	**270,655**
Carrying amount at December 31, 2021	**71,441**	**-**	**2,517**	**2,096**	**-**	**309**	**76,363**

(Stated in thousands of dollars)

	Directional Drilling Equipment	EDR Equipment	Machinery and Equipment	Office and Computer Equipment	Development Costs	Vehicles	Total
Cost							
At January 1, 2020	274,154	8,124	19,852	17,090	3,791	1,259	324,270
Additions	24,489	-	870	210	-	288	25,857
Disposals	(11,710)	-	(214)	-	(8)	(736)	(12,668)
Impairment	-	(1,410)	-	-	-	-	(1,410)
Effect of movement in exchange rate	(4,391)	(101)	(678)	(153)	-	(15)	(5,338))
At December 31, 2020	282,542	6,613	19,830	17,147	3,783	796	330,711
Accumulated Depreciation							
At January 1, 2020	203,600	6,613	16,479	14,589	3,785	788	245,854
Depreciation	24,649	-	1,363	628	4	174	26,818
Disposals	(8,246)	-	(189)	-	(6)	(580)	(9,021)
Effect of movement in exchange rate	(3,145)	-	(533)	(142)	-	(6)	(3,826)
At December 31, 2020	216,858	6,613	17,120	15,075	3,783	376	259,825
Carrying amount at December 31, 2020	65,684	-	2,710	2,072	-	420	70,886

c) Capital Commitments

As at December 31, 2021, the Corporation has entered into commitments to purchase drilling and other equipment for $35.6 million (2020 - $11.5 million); delivery for the RSS portion is expected to occur within the first half of 2022 while the remaining deliveries are expected in the second half of the year.

6. Goodwill

On March 31, 2020, the Corporation determined indicators of impairment existed due to challenges in the oil and natural gas industry as result of COVID-19. As such, an impairment test was performed relating to goodwill and the Corporation recorded an impairment loss of $8.9 million for the year ended December 31, 2020.

7. Intangible Assets

(Stated in thousands of dollars)

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

(Stated in thousands of dollars)

	Technology	License	Development Costs	Systems/ Software	Total
Cost					
At January 1, 2020	1,826	25,876	2,643	1,965	32,310
Additions	-	-	-	-	-
Effect of movement in exchange rate	-	(59)	-	(3)	(62)
At December 31, 2020	1,826	25,817	2,643	1,962	32,248
Accumulated Amortization					
At January 1, 2020	1,826	7,903	1,727	1,952	13,408
Amortization	-	1,709	916	10	2,635
Effect of movement in exchange rate	-	-	-	-	-
At December 31, 2020	1,826	9,612	2,643	1,962	16,043
Carrying amount at December 31, 2020	-	16,205	-	-	16,205

8. Investments

Investments comprise 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 is at the discretion of the Corporation.

9. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	**Currency**	**Carrying Amount at December 31, 2021**	Currency	Carrying Amount at December 31, 2020
Operating Facility	CAD	15,000	Due on demand	CAD	**-**	CAD	-
Syndicated Facility	CAD	50,000	December 12, 2023	CAD	**-**	CAD	-
US Operating Facility	USD	15,000	December 12, 2023	USD	**-**	USD	-

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at December 31, 2021 the Corporation was in compliance with all its financial covenants as follows:

Ratio	Covenant	**As at December 31, 2021**
Debt to covenant EBITDA	<3.0x	**n.m.**
Interest coverage ratio	>3.0x	**109.91**

n.m. – not meaningful

As at December 31, 2021 the Corporation has CAD $65 million and USD $15 million available to be drawn from its credit facilities.

The credit facilities are secured by substantially all of the Corporation's assets.

10. Deferred Tax Assets and Liabilities

a) Unrecognized Deferred Tax Assets and Liabilities

(Stated in thousands of dollars)

	2021		2020	
	Gross Amount	**Tax Effect**	Gross Amount	Tax Effect
Non-capital income tax losses	**$ 55,823**	**$ 11,913**	$ 48,644	$ 10,368
Investment tax credit / foreign tax credit	**-**	**4,364**	-	4,011
Drilling and other equipment	**8,188**	**1,883**	8,717	2,005
Intangibles	**2,033**	**467**	2,110	485
Partnership loss	**1,230**	**283**	374	86
IFRS 16 – lease liability	**1,289**	**296**	-	-
Other	**11,764**	**2,707**	6,455	1,485
	$ 80,327	**$ 21,913**	$ 66,300	$ 18,440

The Corporation has unrecognized deferred tax assets relating to the Canadian and international jurisdiction. Deferred tax assets have not been recognized in respect of the losses as they may not be used to offset taxable profits elsewhere in the Corporation, and they have arisen in subsidiaries that have not established indicators demonstrating that it is probable that future taxable profits will be available to utilize those loss carry-forwards. These non-capital losses will expiry between 2022 and 2040. The investment tax credits and foreign tax credits will expire between 2026 and 2039.

As at December 31, 2021, the Corporation has unrecognized deferred tax assets in respect of deductible temporary differences in the Canadian jurisdiction. Deferred tax assets have not been recognized in respect of deductible temporary differences due to a recent history of taxable losses in Canada.

b) Recognized Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

(Stated in thousands of dollars)

Years ended December 31,		2021		2020
Deferred income tax assets:				
Non-capital income tax losses	$	2,283	$	3,681
Lease liability		8,100		9,167
Other (including foreign and other tax credits)		328		1,798
	$	10,711	$	14,646
Deferred income tax liabilities:				
Drilling and other equipment	$	(13,310)	$	(12,120)
Right-of-use asset		(6,015)		(6,791)
Intangibles		(606)		(177)
Undistributed profits		-		(909)
		(19,931)		(19,997)
Net deferred income tax liability	$	(9,220)	$	(5,351)

Non-capital income tax losses expire between 2022 and 2040. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. The determination involves an assessment of when those deferred tax assets are likely to reverse and a judgment of whether there will be sufficient taxable profits available to utilize the tax assets when they do reverse. Assumptions regarding future profitability have been made and used as the basis for recognizing the deferred tax asset. Deferred tax movements are included in net loss.

(Stated in thousands of dollars)

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

(Stated in thousands of dollars)

	Drilling and Other Equipment	Right-of-Use Asset	Intangibles	Undistributed Profits	Non-Capital Income Tax Losses	Lease Liabilities	Other	Total
At January 1, 2020	(11,059)	(7,698)	-	-	3,983	8,440	1,515	(4,819)
Recognized in profit	(1,388)	679	(177)	(909)	935	977	310	427
Recognized in OCI	327	228	-	-	(1,237)	(250)	(45)	(977)
Other	-	-	-	-	-	-	18	18
At December 31, 2020	(12,120)	(6,791)	(177)	(909)	3,681	9,167	1,798	(5,351)

11. Share Capital

a) Authorized and Issued Shares

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

	Number		Amount
Balance as at January 1, 2020	53,246,420	$	251,815,183
Common shares repurchased and cancelled	(2,670,500)		(3,796,095)
Surrender value of options exercised	-		(608,724)
Issued shares pursuant to share option plan	50,000		132,899
Balance as at December 31, 2020	50,625,920	$	247,543,263
Common shares repurchased and cancelled	**(1,960,788)**		**(7,979,601)**
Common shares repurchased and held in trust	**(1,662,537)**		**(7,500,000)**
Issued shares pursuant to share option plan	**976,067**		**3,399,752**
Balance as at December 31, 2021	**47,978,662**	**$**	**235,463,414**

b) Weighted-Average Number of Shares

	2021	2020
Issued common shares at January 1,	**50,625,920**	53,246,420
Effect of shares pursuant to Normal Course Issuer Bid	**(692,405)**	(676,384)
Effect of shares pursuant to shares purchased and held in trust	**(715,428)**	-
Effect of share options exercised	**331,880**	10,311
Weighted-average number of common shares at December 31,	**49,549,967**	52,580,347

c) Basic and Diluted Earnings (Loss) per Share

2021		**Earnings (numerator)**	**Shares (denominator)**		**Per Share Amount**
Basic earnings per share:	**$**	**22,724,635**	**49,549,967**	**$**	**0.46**
Diluted earnings per share:					
Dilutive effect of share option and retention award equity conversions:		**-**	**2,116,239**		**-**
	$	**22,724,635**	**51,666,206**	**$**	**0.44**

2020		Loss (numerator)	Shares (denominator)		Per Share Amount
Basic loss per share	$	(7,771,157)	52,580,347	$	(0.15)
Diluted loss per share:					
Dilutive effect of share option conversions:		-	-		-
	$	(7,771,157)	52,580,347	$	(0.15)

The Corporation was in a loss position for the comparative year ended December 31, 2020 and therefore all options were considered anti-dilutive and excluded for the calculation of diluted earnings per share. The number of excluded options were 3,345,267 of which 1,475,267 options had exercise prices below the Corporation share price as at December 31, 2020.

d) Dividends

On December 15, 2021, the Corporation declared a dividend of $0.05 per share or $2.5 million, payable on January 17, 2022 to shareholders of record on December 31, 2021.

e) Normal Course Issuer Bid ("NCIB")

During the third quarter of 2021, 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 3,679,797 common shares, representing 10 percent of the Corporation's public float of Common Shares as at August 6, 2021. The NCIB commenced on August 16, 2021 and will terminate on August 15, 2022. Purchases of common shares are to be made on the open market through the facilities of the TSX and through alternative trading systems. The price which PHX Energy is to pay for any common shares purchased is to be at the prevailing market price on the TSX or alternate trading systems at the time of such purchase. Pursuant to the current NCIB, 1,499,900 common shares were purchased by the Corporation and cancelled as at December 31, 2021.

The Corporation's previous NCIB commenced on August 14, 2020 and terminated on August 13, 2021. Pursuant to the previous NCIB, 3,131,388 common shares were repurchased and cancelled by the Corporation of which 460,888 were repurchased and cancelled in 2021.

12. Share-Based Payments

a) Share Option Program (Equity-Settled)

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

Summary of option grants in 2021

Number	Exercise Price	Expiration Date	Fair Value
300,000	$ 2.74	March 5, 2026	$ 0.94
200,000	2.64	March 5, 2026	0.97
500,000			

During the year ended December 31, 2021, a total of 976,067 options (2020 – 50,000 options) were exercised at a weighted average exercise price of $2.40, nil options were forfeited (2020 – 820,834 options), 15,000 options were cancelled (2020 – 150,000), and nil options expired (2020 – 667,500). As at December 31, 2021, the Corporation had a total of 2,854,200 (2020 – 3,345,267) options outstanding which expire over a period of 1 year to 5 years.

The fair value of options that were exercised for the year ended December 31, 2021 in the amount of $1.1 million has been added to share capital.

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 2021 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 57 percent, forfeiture rate of nil, dividend yield of 3.61 percent and a risk-free interest rate of 0.3 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 2021, the Corporation recognized a total compensation expense of $383,604 (2020 - $241,853) for share options granted between 2018 and 2021.

A summary of the status of the plan as at December 31, 2021, is presented below:

		2021		2020
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding, beginning of year	**3,345,267**	**$ 3.01**	4,783,601	$ 3.35
Granted	**500,000**	**2.70**	250,000	2.15
Exercised	**(976,067)**	**2.40**	(50,000)	1.55
Forfeited / cancelled	**(15,000)**	**4.15**	(970,834)	1.87
Expired	**-**	**-**	(667,500)	6.88
Outstanding, end of year	**2,854,200**	**$ 3.15**	3,345,267	$ 3.01
Options exercisable, end of year	**2,437,530**	**$ 3.25**	3,095,262	$ 3.06

The range of exercise prices for options outstanding at December 31, 2021 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
175,000	0.62 yrs	$ 1.71	175,000	$ 1.71
95,000	0.62 yrs	1.79	95,000	1.79
50,000	1.19 yrs	1.95	50,000	1.95
200,000	1.19 yrs	2.00	200,000	2.00
100,000	3.18 yrs	2.09	66,666	2.09
150,000	3.18 yrs	2.19	99,999	2.19
200,000	4.18 yrs	2.64	66,666	2.64
300,000	4.18 yrs	2.74	99,999	2.74
200,000	2.18 yrs	2.81	200,000	2.81
50,000	2.18 yrs	2.83	50,000	2.83
1,031,800	0.17 yrs	4.06	1,031,800	4.06
302,400	0.17 yrs	4.15	302,400	4.15
2,854,200	1.44 yrs	$ 3.15	2,437,530	$ 3.25

b) Retention Award Plan

Prior to May 5, 2021 the retention award plan resulted in eligible participants receiving cash compensation in relation to the value of a specified number of underlying notional retention awards. The retention award plan has two types of awards: Restricted Awards ("RAs") and Performance Awards ("PAs"). RAs vest evenly over a period of three-years. Upon vesting and subsequent exercise, the holder is entitled to receive a cash payment 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.

Effective May 5, 2021, PHX Energy amended its retention award plan whereby the Corporation has the option to settle vested RAs and PAs with either cash or in common shares acquired by an independent trustee in the open market from time-to-time for such purposes. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired 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, 2021, the trustee purchased 1,662,537 common shares (2020 – nil) for a total cost of $7.5 million (2020 - $nil) and as at December 31, 2021, holds 1,662,537 common shares in trust. The Corporation continues to account for its retention award plan as cash-settled share-based compensation.

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, 2021, 750,000 PAs were granted (2020 – 750,000), 757,184 PAs settled at a weighted-average payout multiplier of 150 percent (2020 – 566,668), no PAs were forfeited (2020 - nil). As at December 31, 2021, 1,529,226 PAs were outstanding (2020 – 1,500,000).

The Corporation recorded a total of $12.9 million in compensation expense relating to these plans for year ended December 31, 2021 (2020 - $1.9 million). The expense is included in selling, general and administrative expense and has a corresponding liability included in trade and other payables. There were 3,267,579 RAs and PAs outstanding as at December 31, 2021 (2020 – 3,487,297).

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

	2021	2020
RAs and PAs outstanding, beginning of year	**3,487,297**	3,555,634
Granted	**1,666,514**	1,695,655
Settled	**(1,808,415)**	(1,661,482)
Forfeited / cancelled	**(77,817)**	(102,510)
RAs and PAs outstanding, end of year	**3,267,579**	3,487,297

13. Expenses by Nature

(Stated in thousands of dollars)

Years ended December 31,	2021	2020
Salaries and employee benefits	**98,506**	90,888
Share-based payments	**13,283**	2,140
Personnel expenses	**111,789**	93,028
Equipment expenses	**93,805**	54,420
Depreciation and amortization drilling and other equipment	**25,860**	29,454
Consumed repair parts	**35,074**	22,978
Contract labour	**27,892**	13,545
Field and freight expenses	**12,313**	8,947
Insurance and business and sales taxes	**11,820**	8,598
Facility and office expenses	**6,756**	6,395
Travel and entertainment	**3,857**	2,554
Depreciation and amortization right-of-use asset	**3,336**	3,561
Other	**640**	1,350
Provisions for inventory	**2,033**	2,656
Legal and audit fees	**1,337**	1,663
Government grants	**(8,763)**	(5,404)
	327,749	243,745

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 (loss).

14. Other Income

Years ended December 31,		**2021**		2020
Net gain on disposition of drilling equipment (Note 5b)	**$**	**7,718,185**	$	3,756,022
Loss on remeasurement		**(1,177,546)**		-
Foreign exchange loss		**(88,636)**		(85,563)
Recovery of (provision for) bad debts		**280,612**		(1,644,980)
	$	**6,732,615**	$	2,025,479

15. Income Taxes

Years ended December 31,		**2021**		2020
Current tax expense (recovery):				
Current period	**$**	**16,335**	$	(244,608)
Adjustment for prior periods		**(253,358)**		(735,450)
		(237,023)		(980,058)
Deferred tax recovery:				
Origination and reversal of temporary differences		**4,013,451**		182,140
Adjustment for prior periods		**(218,820)**		(609,048)
		3,794,631		(426,908)
Total income tax expense (recovery)	**$**	**3,557,608**	$	(1,406,966)

Reconciliation of effective tax rate

Years ended December 31,	2021		2020	
Net earnings (loss)	**$ 22,724,635**		$ (7,771,157)	
Total income tax provision (recovery)	**3,557,608**		(1,406,966)	
Income (loss) before income taxes	**26,282,243**		(9,178,123)	
Income tax using the Corporation's domestic tax rate	**6,044,916**	**23.0%**	(2,202,290)	24.0%
Non-taxable portion of gains on disposal of assets	**(225,943)**	**(0.9%)**	(214,029)	2.3%
Change in unrecognized deductible temporary differences	**3,538,974**	**13.5%**	(1,947,390)	21.2%
Effect of tax rates in foreign jurisdictions	**(3,074,967)**	**(11.7%)**	(998,967)	10.9%
Non-deductible share-based payments and other expenses	**217,552**	**0.8%**	215,873	(2.4%)
Research and development tax credit	**(1,164,703)**	**(4.4%)**	(719,419)	7.8%
Other	**(1,778,221)**	**(6.8%)**	(190,141)	2.1%
Effect of change in Alberta tax rate	**-**	**-**	(17,150)	0.2%
Non-deductible impairment on goodwill	**-**	**-**	2,041,561	(22.2%)
Tax distribution and dividend	**-**	**-**	2,624,987	(28.6%)
	$ 3,557,608	**13.5%**	$ (1,406,966)	15.3%

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,	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Total revenue	**67,560**	49,031	**272,492**	185,058	**9,868**	12,313	**349,920**	246,402
Reportable segment profit (loss) before income taxes (1)	**6,604**	3,916	**33,056**	7,393	**(650)**	(2,094)	**39,010**	9,215

(1) Includes adjustments to intercompany transactions.

(Stated in thousands of dollars)

	Canada		United States		International		Total	
As at December 31,	**2021**	2020	**2021[1]**	2020	**2021**	2020	**2021**	2020
Drilling and other equipment	**14,746**	15,628	**60,662**	52,677	**955**	2,581	**76,363**	70,886

[1] Includes USD $1.6 million of drilling and other equipment physically located in the Middle East region as part of a technology arrangement.

Reconciliation of reportable segment loss and other material items

(Stated in thousands of dollars)

Years ended December 31,	**2021**	2020
Reportable segment income before income taxes	**$ 39,010**	$ 9,215
Corporate:		
Selling, general and administrative expenses	**14,066**	4,614
Research and development expenses	**2,774**	1,944
Finance expense	**496**	769
Finance expense lease liability	**2,125**	2,361
Impairment loss	**-**	10,730
Other income	**(6,733)**	(2,025)
Earnings (loss) before income taxes	**$ 26,282**	$ (9,178)

17. Changes in Non-Cash Working Capital

(Stated in thousands of dollars)

Years ended December 31,	**2021**	2020
Trade and other receivables	**$ (31,791)**	$ 48,954
Inventories	**(9,206)**	3,341
Prepaid expenses	**(749)**	504
Trade and other payables	**41,856**	(16,387)
Impact of foreign exchange rate changes and other in working capital	**(2,257)**	(5,284)
	$ (2,147)	$ 31,128

18. Financial Instruments

a) Credit Risk

The Corporation is exposed to normal credit risks of its customers that exist within the oil and natural gas exploration and development industry. The Corporation's credit risk associated with these customers can be directly impacted by a decline in economic conditions, which would impair the customers' ability to satisfy their obligations to the Corporation. During the year ended December 31, 2021, one customer comprised 27 percent of the total revenue (2020 - 9 percent of revenue). The customer's revenue is reported within the US operating segment.

As at December 31, 2021, the aging of trade and other receivables that were not impaired was as follows:

(Stated in thousands of dollars)

		2021
Neither past due nor impaired	$	52,398
Past due 1-30 days		19,331
Past due 31-60 days		3,929
Past due 61-90 days		671
Past due over 90 days		149
	$	76,478

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 1 percent or approximately $0.1 million of total receivables on the statement of financial position at December 31, 2021. Management believes that the unimpaired amounts that are past due are still collectible in full, based on historic payment behavior and extensive analysis of customer credit risk. Management has provided an allowance of $0.3 million for all amounts it considers uncollectable at December 31, 2021 (2020 - $1.3 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, 2021:

(Stated in thousands of dollars)

	2022	2023	2024	2025	2026 and after
Drilling and other equipment purchase commitments	35,553	-	-	-	-
Trade and other payables	80,362	-	-	-	-
Dividends payable	2,482	-	-	-	-
Lease payments	6,730	5,155	4,951	4,615	14,025
	125,127	5,155	4,951	4,615	14,025

c) Fair Values of Financial Instruments

The Corporation has designated its trade and other payables and dividends payable 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 approximate their fair value due to the relatively short periods to maturity of the instruments.

Equity investments in a company are designated as non-derivative financial assets measured at FVOCI as the investment is not held-for-trading and fair value changes are not reflective of the Corporation's operations. The investment asset is carried at fair value on the Consolidated Statement of Financial Position. Fair value will be considered level 3 under the fair value hierarchy and will require management to assess information available, which may include private placements, available financial statement information and other available market data.

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.

For the year ended December 31, 2021 the Corporation did not incur any loans and borrowings except for nominal overdraft and as such, interest rate risk exposure for the Corporation in the fiscal year was minimal.

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 and Russia, the Corporation has an exposure to foreign currency exchange rates. The carrying values of Canadian dollar, US dollar and Russian ruble ("RUB") denominated monetary assets and liabilities and earnings are subject to foreign exchange risk. For the year ended December 31, 2021, foreign exchange losses of $0.1 million (2020 – $0.1 million) resulted mainly from fluctuations in the CAD-USD exchange rates. The Corporation reviews options with respect to managing its foreign exchange risk periodically.

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

As at December 31, 2021	**CAD**	**USD**	**RUB**
Cash and cash equivalents	**-**	**16,154,394**	**76,601,759**
Trade and other receivables	**-**	**33,895,398**	**115,829,849**
Trade and other payables	**-**	**(21,403,981)**	**(37,343,137)**
Intercompany payables	**(3,120,538)**	**-**	**-**
Statement of financial position exposure	**(3,120,538)**	**28,645,811**	**155,088,471**

As at December 31, 2020	CAD	USD	RUB
Cash and cash equivalents	-	9,369,910	82,727,418
Trade and other receivables	-	21,397,572	83,911,812
Trade and other payables	-	(11,180,014)	(16,018,866)
Intercompany receivables	3,371,075	-	-
Intercompany payables	(969,679)	-	-
Statement of financial position exposure	2,401,396	19,587,468	150,620,364

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

	Average Rate		December 31, Close Rate	
	2021	2020	**2021**	2020
USD	**1.2537**	1.3412	**1.2678**	1.2732
RUB	**58.7767**	53.8048	**58.0230**	57.7289

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

Gain (Loss)	**2021**	2020
CAD (10% strengthening)	**$ (246,138)**	$ 188,611
USD (10% strengthening)	**247,861**	427,236

19. Capital Management

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

The Corporation's management considers the capital structure to consist of long-term debt, including any current portion of long-term debt, and shareholders' equity. As at December 31, 2021, the Corporation did not have any loans and borrowings outstanding (2020 – $nil) and $134 million (2020 – $132 million) in shareholders' equity. The Corporation's resulting long-term debt to equity ratio was nil as at December 31, 2021 (2020 – nil).

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

The Corporation is subject to capital requirements relating to debt covenants on debt facilities held. As at December 31, 2021, 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, 2021.

20. Leases

a) Leases as Lessee

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

The Corporation elected not to recognize right-of-use assets and lease liabilities for leases that were short-term, expired in 2021, 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
2021			
Balance at January 1,	**$ 28,084**	**$ 873**	**$ 28,957**
Depreciation charge for the year	**(2,971)**	**(365)**	**(3,336)**
Additions to right-of-use assets	**-**	**268**	**268**
Derecognition of right-of-use assets (1)	**(104)**	**(26)**	**(130)**
Effect of movement in exchange rate	**(37)**	**(14)**	**(51)**
Balance at December 31,	**$ 24,972**	**$ 736**	**$ 25,708**

(1) Derecognition of right-of-use assets during 2021 is a result of early termination of vehicle leases and recognition of sub-lease income

(Stated in thousands of dollars)

	Shop and Office Buildings	Vehicles	Total
2020			
Balance at January 1,	$ 31,839	$ 987	$ 32,826
Depreciation charge for the year	(3,185)	(376)	(3,561)
Additions to right-of-use assets	-	347	347
Derecognition of right-of-use assets (1)	(482)	(72)	(554)
Effect of movement in exchange rate	(88)	(13)	(101)
Balance at December 31,	$ 28,084	$ 873	$ 28,957

(1) Derecognition of right-of-use assets during 2020 is a result of early termination of vehicle leases, recognition of sub-lease income, and office lease modifications.

ii. Amounts Recognized in Consolidated Statements of Comprehensive Earnings (Loss)

(Stated in thousands of dollars)

Years ended December 31,		2021		2020
Interest on lease liabilities	$	2,125	$	2,361
Income from sub-leasing right-of-use assets presented in "finance expense lease liability"		(3)		(13)
Expenses relating to short-term leases		672		631
Expenses relating to leases of low-value assets, excluding short-term leases of low value		90		123
	$	2,884	$	3,102

iii. Amounts Recognized in Consolidated Statements of Cash Flows

(Stated in thousands of dollars)

Years ended December 31,		2021		2020
Total cash outflow for IFRS 16 leases	$	(5,420)	$	(5,416)

iv. 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.

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

b) Leases as Lessor

During 2021 the Corporation has sub-leased offices that are presented as part of a right-of-use asset. During the 2021 year the Corporation recognized interest income on lease receivables of $3 thousand (2020 – $13 thousand).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

2022	$	113
2023		9

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.

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

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

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

Key management personnel compensation comprised:

Years ended December 31,		**2021**		2020
Base salaries, benefits, and directors' remuneration	**$**	**3,326,404**	$	2,868,966
Short-term bonuses and commissions		**6,925,243**		2,489,342
Share-based compensation		**3,539,642**		3,323,900
	$	**13,791,289**	$	8,682,208

Key management personnel and director transactions

As at December 31, 2021, Directors and Executive Officers of the Corporation control 12 percent of the common shares of the Corporation.

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 Chairman of the Board and the Lead Director receive an additional annual retainer, as do the Chairs of the Audit Committee, Human Resources and Compensation Committee, and Nomination and Corporate

Governance Committee. Directors are also entitled to participate in the retention award plan (see Note 12) and can elect to receive certain percentages of these fees as RAs under the retention award plan. As at December 31, 2021, the directors held 803,460 of RAs outstanding (2020 – 845,073).

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, 2021, there were no purchases of goods, equipment, or services from or to a related party (2020 – $nil).

22. Significant Subsidiaries

		Ownership Interest	
	Country of Incorporation	**2021**	2020
Phoenix Technology Services Inc.	Canada	**100%**	100%
Phoenix Technology Services LP	Canada	**100%**	100%
Phoenix Technology Services USA Inc.	USA	**100%**	100%
Phoenix TSR LLC	Russia	**100%**	100%
Phoenix Technology Services Luxembourg Sarl.	Luxembourg	**100%**	100%
Phoenix Technology Services International Ltd. (1)	Cyprus	**100%**	100%

(1) Entity holds a branch in Albania.

23. Subsequent Event and Re-presentation of Assets Held for Sale

Subsequent to December 31, 2021, the Corporation formally terminated the preliminary agreement for the sale of the Russian division, Phoenix TSR. However, discussions are continuing with the interested party to reach an alternative agreement. At this time, there is no formal agreement and if one is entered there can be no assurance that the sale of the Russian division will be completed on the terms agreed upon or at all. Accordingly, the comparative consolidated financial statements for the year ended December 31, 2020 have been re-presented to include the assets and liabilities of Phoenix TSR as held for use and the operations of Phoenix TSR as part of continuing operations and reporting under the international CGU.

As part of the reclassification out of assets held for sale and into held for use, the Corporation recognized a loss on remeasurement of $1.2 million on the long-lived assets owned by Phoenix TSR. The loss on remeasurement is reported in other income on the Consolidated Statements of Comprehensive Earnings (Loss).

Corporate Information

Board of Directors

John Hooks

Randolph ("Randy") M. Charron

Myron Tétreault

Karen David-Green

Lawrence Hibbard

Roger Thomas

Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta