Press Release
February 28, 2023
TSX – PHX
Calgary, Alberta

PHX Energy Announces Strongest Fourth Quarter and Year End Results In Its History

Fourth Quarter Highlights

- For the three-month period ended December 31, 2022, PHX Energy generated consolidated revenue of $157.8 million, the highest level of quarterly revenue in the Corporation's history and an increase of 54 percent from the fourth quarter of 2021.
- Adjusted EBITDA(1) from continuing operations increased to $33.9 million, 21 percent of consolidated revenue(1). This is also PHX Energy's highest level of quarterly adjusted EBITDA and all-time record as a percentage of consolidated revenue. Included in the 2022-quarter's adjusted EBITDA is $6.9 million in cash-settled share-based compensation expense. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations(1) in the fourth quarter of 2022 was $40.8 million, 26 percent of consolidated revenue.
- Earnings from continuing operations doubled to $20.3 million in the 2022-quarter from $9.3 million in the 2021 three-month period.
- PHX Energy's strong momentum in the US continued, with the Corporation's US division generating its highest quarterly revenue for the fourth consecutive quarter. US revenue was $125.7 million in the fourth quarter of 2022, representing 80 percent of consolidated revenue.
- The US dollar remained strong and continued to have a favorable impact to the 2022-quarter's financial results. In the 2022 three-month period, the average US dollar to Canadian dollar foreign exchange rate was 1.36 compared to 1.26 in the 2021-period.
- The Corporation generated excess cash flow(2) of $14.3 million, a 119 percent increase over the fourth quarter of 2021.
- In the 2022-quarter, PHX Energy paid $5.1 million in dividends which is double the dividends paid in the same 2021-quarter. On December 15, 2022, the Corporation declared a dividend of $0.15 per share or $7.6 million, paid on January 16, 2023 to shareholders of record on December 30, 2022.

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Year End Highlights

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

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

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Financial Highlights

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

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

n.m. – not meaningful

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Outlook

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

- In 2023, we anticipate that the accelerated growth in industry activity will stabilize, plateauing at an average of 1,000 active rigs per day in North America. We believe that this will be the result of a weakening in commodity prices, but even with these lower rates the industry will remain in a healthy position that will support further growth, particularly in our US division.
- Through 2022 our premium technology remained in high demand and our fleet operated at capacity, even as new assets were brought online, as this demand outpaced our supply with climbing rig counts. Supply chain product and component shortages delayed the delivery of some of the 2022 capital expenditures, and we anticipate receiving these deliveries in the first half of 2023.
- We believe the 2023 capital expenditure program will allow us to meet the ongoing demand for our premium technology as operators continue to seek technologies, like ours, that increase the speed at which they drill. In 2023, we anticipate growing our market share as the industry activity flattens and we will see the full benefit from the record level of net capital expenditures in 2022 and expenditures planned for 2023.
- We will continue to diligently act to protect our operating margins as inflation continues to be a prominent factor in all aspects of our business. Our supply chain department will work proactively to control costs and inventory levels, and as in the previous year, we will strive to implement purchasing and marketing strategies to offset further cost increases.
- The strength of our US operations led to all-time record divisional revenue being achieved in 2022, and even with this growth we only touched 10 percent of rigs in the US land market with our technology, including full service work and motor rentals. There is another 90 percent of this market that we believe we can gain a portion of, leveraging our strong brand and premium technologies to generate opportunities for greater revenue streams with attractive margins. Additionally, similar opportunities continue to exist in select international markets.
- We are committed to maintaining one of the strongest balance sheets in the sector with minimal or no net debt, remaining disciplined in our approach to capital spending, and focused on profitability while providing shareholders attractive total return. We intend to continue to do so through our Return of Capital Strategy (“ROCS”) which will potentially allow us to return up to 70 percent of excess cash flow to shareholders through both base dividend, and the possibility of special dividends (more information on the ROCS can be found in the Return of Capital Strategy section of this document).

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

Michael Buker, President
February 28, 2023

Overall Performance

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

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

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

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

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Throughout 2022, the Corporation implemented strategies to mitigate the negative impacts of supply chain challenges and inflationary pressures. These strategies, together with growth in revenue and activity, helped yield record results in profitability. In the fourth quarter of 2022, adjusted EBITDA from continuing operations increased by 95 percent to $33.9 million (21 percent of revenue) from $17.4 million (17 percent of revenue) in the same 2021-quarter, while earnings from continuing operations doubled to $20.3 million from $9.3 million in the comparable 2021-period. For the year ended December 31, 2022, PHX Energy realized adjusted EBITDA from continuing operations of $92.7 million (17 percent of revenue), a 54 percent improvement compared to the $60.2 million (18 percent of revenue) reported in the 2021-year. Earnings from continuing operations for the 2022-year increased to $44.3 million from $23.3 million in the 2021-year. Included in the 2021-year adjusted EBITDA and earnings from continuing operations is $8.8 million of government grants compared to $0.3 million included in the 2022-year. Also included in the 2022 three and twelve-month period adjusted EBITDA from continuing operations is cash-settled share-based compensation expense of $6.9 million (2021 - $3 million) and $24.6 million (2021 - $12.9 million), respectively. Excluding cash-settled share-based compensation expense, adjusted EBITDA from continuing operations for the three and twelve-month period ended December 31, 2022 is $40.8 million (2021 - $20.4 million) and $117.3 million (2021 - $73.1 million), respectively.

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

Dividends

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

Return of Capital Strategy

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

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

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

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Capital Spending

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

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

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

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

Supply Chain Disruptions and Inflation

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

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

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

Shares Held in Trust

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

Normal Course Issuer Bid

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

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

Non-GAAP and Other Financial Measures

Throughout this document, PHX Energy uses certain measures to analyze financial performance, financial position, and cash flow. These Non-GAAP and other specified financial measures do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP") and include Non-GAAP Financial Measures and Ratios, Capital Management Measures and Supplementary Financial Measures (collectively referred to as "Non-GAAP and Other Financial

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

Revenue

(Stated in thousands of dollars)

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

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

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

The record quarterly and annual revenue achieved in 2022 were also supported by pricing increases realized during these periods and the favorable impact of the US dollar strengthening in the 2022-periods relative to 2021. Average consolidated revenue per day[1], excluding the motor rental division in the US, for the three-month period ended December 31, 2022, was $19,974 an increase of 24 percent as compared to $16,122 in the 2021-quarter. The 2022 annual average consolidated revenue per day, excluding the motor rental division in the US, was $18,097 compared to $15,298 in 2021, an 18 percent increase.

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

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

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

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

In the three and twelve-month periods of 2022, gross profit as a percentage of revenue excluding depreciation and amortization and government grants was 29 percent and 27 percent, respectively, compared to 27 percent in both corresponding 2021 periods. Included in the 2021-year's direct costs are $6.5 million in government grants. Despite the negative impacts of

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inflation, PHX Energy was able to sustain and improve profitability levels through effective implementation of various strategies to soften the impact of rising costs, including but not limited to, volume discounts and continuous efforts to achieve cost efficiencies across all major aspects in the Corporation's operations.

(Stated in thousands of dollars except percentages)

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

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

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

(Stated in thousands of dollars)

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

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

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(Stated in thousands of dollars)

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

n.m. – not meaningful

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

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

(Stated in thousands of dollars)

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

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

Net gain on disposition of drilling equipment is comprised of gains on disposition of drilling equipment and proceeds from insurance programs. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life. In both 2022-periods, as drilling activity grew, more instances of downhole equipment losses occurred as compared to the corresponding 2021-periods, resulting in a higher net gain on disposition of drilling equipment. The Corporation will use capital expenditure funds, including the proceeds from disposition of drilling equipment, to replace this equipment and these amounts will be added to the expected capital expenditures in 2023.

(Stated in thousands of dollars except percentages)

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

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

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

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

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

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

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

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

Segmented Information

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

Canada

(Stated in thousands of dollars)

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

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

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

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

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

In the 2022 three and twelve-month periods, PHX Energy's Canadian division achieved higher levels of profitability despite the Canadian market remaining highly competitive and the challenges faced in relation to inflation, labour shortages, and supply chain difficulties. For the three-month period and year ended December 31, 2022, the Corporation's Canadian division recognized reportable segment profit before tax of $0.8 million (2021 - $1.3 million of reportable segment loss before tax) and

$8.7 million (2021 - $3.5 million), respectively. The improvements in segment profits in both periods were achieved mainly through greater volumes of activity and pricing increases negotiated with customers to help curtail rising costs.

United States

(Stated in thousands of dollars)

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

[i] Includes adjustments to intercompany transactions.

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

In the fourth quarter of 2022, the Corporation's US drilling activity increased by 28 percent to 4,843 days from 3,783 days in the same 2021-quarter while US industry horizontal and directional rig count in the fourth quarter of 2022 increased by 41 percent quarter-over-quarter with an average of 752 active horizontal and directional rigs per day compared to an average of 533 active horizontal and directional rigs per day in the 2021-quarter (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). For the year-ended December 31, 2022, the US segment's operating days were 18,248 days, compared to 14,041 days in the 2021-year; an increase of 30 percent. In comparison, the US industry activity, as measured by the average number of horizontal and directional rigs running on a daily basis, grew by 53 percent to 698 rigs in 2022 from 456 rigs in 2021 (Source: Baker Hughes, North American Rotary Rig Count, Jan 2000 - Current, https://rigcount.bakerhughes.com/na-rig-count). Horizontal and directional drilling continues to represent the majority of rigs running on a daily basis during the fourth quarter and year ended 2022. During the 2022-year, Phoenix USA was active in the Permian, Scoop/Stack, Marcellus, Utica, Bakken, and Niobrara basins.

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

[1] Supplementary financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this document.

also supported the increases in average revenue per day. Omitting the impact of foreign exchange, the average revenue per day, excluding the Corporation's motor rental division, increased by 14 percent quarter-over-quarter and 15 percent year-over-year.

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

International – Continuing Operations

(Stated in thousands of dollars)

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

n.m. – not meaningful

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

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

Discontinued Operations – Russia

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

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

(Stated in thousands of dollars)

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

Investing Activities

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

(Stated in thousands of dollars)

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

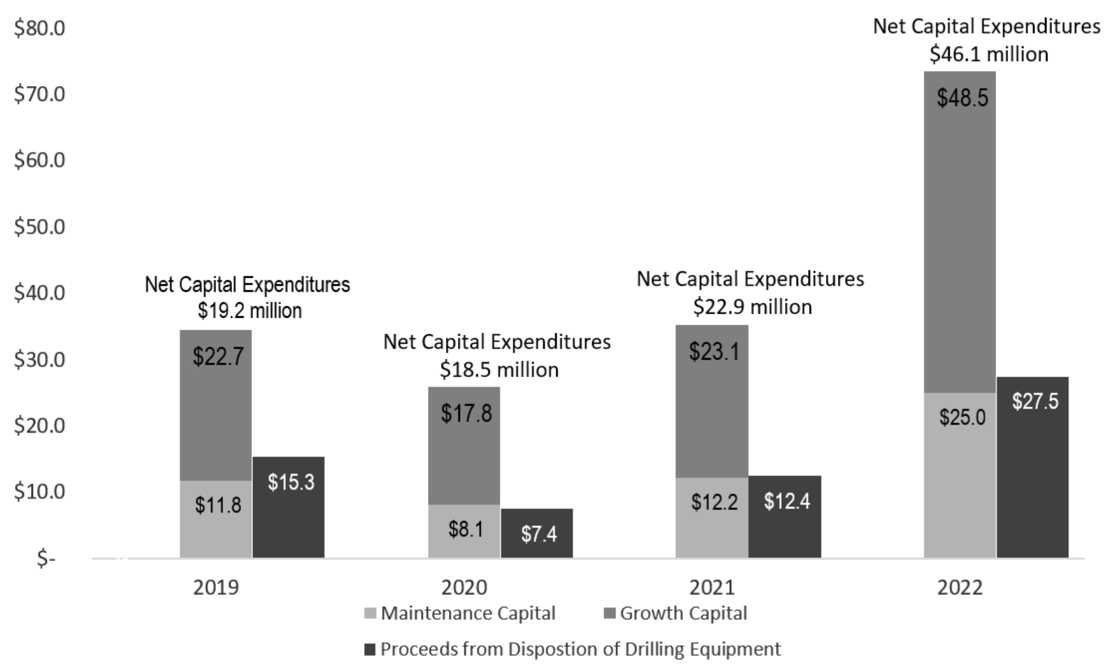
[1] Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Non-GAAP and Other Financial Measures section of this document.

The 2022-year capital expenditures comprised of:

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

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

Capital Expenditures



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

Financing Activities

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

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

Capital Resources

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

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

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

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

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

Cash Requirements for Capital Expenditures

Historically, the Corporation has financed its capital expenditures and acquisitions through cash flows from operating activities, proceeds on disposition of drilling equipment, debt and equity. In order to continue the advantageous strategy of placing advanced orders in a robust industry environment and continue to mitigate the supply chain issues expected to continue into 2023, the Board has approved a 2023 capital expenditure program of $61.5 million. Of the 2023 capital expenditures, $19.7 million is expected to be allocated to maintain capacity in the existing fleet of drilling and other equipment and replace equipment lost downhole during drilling operations, and $41.8 million is expected to be allocated to growth capital. The amount expected to be allocated towards replacing equipment lost downhole could increase should more downhole equipment losses occur throughout the year.

These planned expenditures are expected to be financed from cash flow from operating activities, proceeds on disposition of drilling equipment, cash and cash equivalents, and the Corporation's credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2023, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

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

About PHX Energy Services Corp.

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

PHX Energy's Canadian directional drilling operations are conducted through Phoenix Technology Services LP. The Corporation maintains its corporate head office, research and development, Canadian sales, service and operational centers in Calgary, Alberta. In addition, PHX Energy has a facility in Estevan, Saskatchewan. PHX Energy's US operations, conducted through the

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

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

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Michael Buker, President; or
Cameron Ritchie, Senior Vice President Finance and CFO

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Consolidated Statements of Financial Position

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

Condensed Consolidated Statements of Comprehensive Income

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
	(Unaudited)	*(Unaudited)*		*(Re-presented)*
Revenue	**$ 157,758,297**	$ 102,295,822	**$ 535,744,879**	$ 339,946,067
Direct costs	**121,906,394**	82,137,785	**426,106,571**	270,636,934
Gross profit	**35,851,903**	20,158,037	**109,638,308**	69,309,133
Expenses:				
Selling, general and administrative expenses	**19,364,769**	13,044,314	**68,901,204**	44,982,155
Research and development expenses	**1,183,578**	1,048,545	**3,722,513**	2,773,559
Finance expense	**486,984**	114,746	**1,360,429**	494,287
Finance expense lease liability	**524,909**	515,614	**2,031,549**	2,125,017
Other income	**(8,698,806)**	(3,384,400)	**(19,730,307)**	(7,942,246)
	12,861,434	11,338,819	**56,285,388**	42,432,772
Earnings from continuing operations before income taxes	**22,990,469**	8,819,218	**53,352,920**	26,876,361
Provision for (recovery of) income taxes				
Current	**363,172**	(17,348)	**759,822**	(235,944)
Deferred	**2,294,216**	(493,899)	**8,281,708**	3,794,631
	2,657,388	(511,247)	**9,041,530**	3,558,687
Earnings from continuing operations	**20,333,081**	9,330,465	**44,311,390**	23,317,674
Discontinued operations				
Net loss from discontinued operations, net of taxes	**-**	(678,515)	**(14,558,032)**	(593,039)
Net earnings	**20,333,081**	8,651,950	**29,753,358**	22,724,635
Other comprehensive income				
Foreign currency translation	**(1,743,303)**	(558,781)	**8,820,328**	(68,458)
Reclassification of foreign currency translation loss on disposition	**-**	-	**10,560,954**	-
Total comprehensive income for the period	**$ 18,589,778**	$ 8,093,169	**$ 49,134,640**	$ 22,656,177
Earnings per share – basic				
Continuing operations	**$ 0.40**	$ 0.19	**$ 0.88**	$ 0.47
Discontinued operations	**$ -**	$ (0.01)	**$ (0.29)**	$ (0.01)
Net earnings	**$ 0.40**	$ 0.18	**$ 0.59**	$ 0.46
Earnings per share – diluted				
Continuing operations	**$ 0.39**	$ 0.18	**$ 0.87**	$ 0.45
Discontinued operations	**$ -**	$ (0.01)	**$ (0.29)**	$ (0.01)
Net earnings	**$ 0.39**	$ 0.17	**$ 0.58**	$ 0.44

Condensed Consolidated Statements of Cash Flows

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
	(Unaudited)	*(Unaudited)*		*(Re-presented)*
Cash flows from operating activities:				
Earnings from continuing operations	**$ 20,333,081**	$ 9,330,465	**$ 44,311,390**	$ 23,317,674
Adjustments for:				
Depreciation and amortization	**8,875,776**	6,898,289	**32,118,506**	25,860,400
Depreciation and amortization right-of-use asset	**805,421**	836,765	**3,235,024**	3,336,282
Provision for (recovery of) income taxes	**2,657,388**	(511,247)	**9,041,530**	3,558,687
Unrealized foreign exchange loss	**132,706**	176,407	**169,308**	253,071
Net gain on disposition of drilling equipment	**(8,692,877)**	(3,482,704)	**(19,491,747)**	(7,745,851)
Equity-settled share-based payments	**58,146**	49,056	**451,188**	383,604
Finance expense	**486,984**	114,746	**1,360,429**	494,287
Recovery of bad debts	**(11,712)**	(1,547)	**(13,213)**	(280,612)
Provision for inventory obsolescence	**422,631**	361,493	**1,299,155**	2,033,144
Interest paid	**(249,587)**	(40,528)	**(841,288)**	(195,672)
Interest paid on lease liabilities	**(524,909)**	(515,614)	**(2,031,549)**	(2,125,017)
Income taxes received	**3,221**	(97,302)	**231,812**	109,455
Change in non-cash working capital	**(15,326,046)**	(150,396)	**(31,502,843)**	(3,451,337)
Continuing operations	**8,970,223**	12,967,883	**38,337,702**	45,548,115
Discontinued operations	**-**	830,929	**(1,254,859)**	(95,412)
Net cash from operating activities	**8,970,223**	13,798,812	**37,082,843**	45,452,703
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**12,005,349**	5,235,902	**27,458,977**	12,340,237
Acquisition of drilling and other equipment	**(21,473,931)**	(11,122,110)	**(73,525,079)**	(35,281,303)
Acquisition of intangible assets	**(568,978)**	(1,852,731)	**(1,261,372)**	(1,852,731)
Acquisition of equity investment	**-**	-	**-**	(3,000,500)
Change in non-cash working capital	**(332,618)**	1,804,142	**7,349**	4,164,905
Continuing operations	**(10,370,178)**	(5,934,797)	**(47,320,125)**	(23,629,392)
Discontinued operations	**-**	(10,964)	**(68,068)**	163
Net cash used in investing activities	**(10,370,178)**	(5,945,761)	**(47,388,193)**	(23,629,229)
Cash flows from financing activities:				
Proceeds on (repayment of) loans and borrowings	**(1,268,611)**	-	**22,731,389**	-
Proceeds from exercise of options	**332,800**	1,372,126	**2,503,685**	2,346,453
Dividends paid to shareholders	**(5,078,134)**	(2,505,450)	**(15,147,530)**	(6,290,612)
Purchase of shares held in trust	**(610,000)**	(1,414,000)	**(4,110,000)**	(7,500,000)
Payments of lease liability	**(805,268)**	(856,425)	**(3,271,452)**	(3,294,608)
Repurchase of shares under the NCIB	**-**	(4,515,467)	**-**	(7,979,601)
Continuing operations	**(7,429,213)**	(7,919,216)	**2,706,092**	(22,718,368)
Discontinued operations	**-**	-	**-**	-
Net cash from (used in) financing activities	**(7,429,213)**	(7,919,216)	**2,706,092**	(22,718,368)
Net decrease in cash and cash equivalents	**(8,829,168)**	(66,165)	**(7,599,258)**	(894,894)
Cash and cash equivalents, beginning of period	**27,023,659**	24,917,181	**24,828,830**	25,745,911
Effect of movements in exchange rates on cash held	**52,885**	(22,186)	**1,017,804**	(22,187)
Cash and cash equivalents, end of period	**$ 18,247,376**	$ 24,828,830	**$ 18,247,376**	$ 24,828,830

Cautionary Statement Regarding Forward-Looking Information and Statements

This document 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 document 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 document should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this document.

In particular, forward-looking information and statements contained in this document include without limitation, the anticipated increase in demand for the Corporation's services and technologies in North America, the expectation that supply chain challenges faced in 2022 will lessen in 2023, the anticipated impact of global supply chain disruptions and inflation on the Corporation's operations, results, and the Corporation's planned responses thereto, the Corporation's intent to preserve balance sheet strength and continue to reward shareholders, including through the ROCS Program, the anticipated continuation of PHX Energy's quarterly dividend program and the amounts of dividends, the projected capital expenditures budget 2023 and how the budget will be allocated and funded, the timeline for delivery of equipment on order, the anticipated increase in demand for the Corporation's services and technologies in North America, and the potential future settlement of retention and performance awards in common shares that were purchased and held in trust by an independent trustee in the open market.

The above are stated under the headings: "Year End Highlights", "Overall Performance", "Return of Capital Strategy", "Capital Spending", "Supply Chain Disruption and Inflation", and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Return of Capital Strategy", and "Outlook" sections of this document may contain forward-looking statements.

In addition to other material factors, expectations and assumptions which may be identified in this document and other continuous disclosure documents of the Corporation referenced herein, assumptions have been made in respect of such forward-looking statements and information regarding, without limitation, that: the Corporation will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions and the accuracy of the Corporation's market outlook expectations for 2023 and in the future; that future business, regulatory and industry conditions will be within the parameters expected by the Corporation, anticipated financial performance, business prospects, impact of competition, strategies, the general stability of the economic and political environment in which the Corporation operates; the impact of pandemics and the Russian-Ukrainian war on the global economy, specifically trade, manufacturing, supply chain, inflation and energy consumption, among other things and the resulting impact on the Corporation's operations and future results which remain uncertain, exchange and interest rates including the potential for further interest rate hikes by global central banks and the impact on financing charges and foreign exchange and the anticipated global economic response to concerted interest rate hikes; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services and the adequacy of cash flow; debt and ability to obtain financing on acceptable terms to fund its planned expenditures, which are subject to change based on commodity prices; market conditions and future oil and natural gas prices; and potential timing delays. Although management considers these material factors, expectations, and assumptions to be reasonable based on information currently available to it, no assurance can be given that they will prove to be correct.

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

Non-GAAP and Other Financial Measures

Non-GAAP Financial Measures and Ratios

a) Adjusted EBITDA from Continuing Operations

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

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

(Stated in thousands of dollars)

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

b) Adjusted EBITDA from Continuing Operations Per Share - Diluted

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

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

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

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

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

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

(Stated in thousands of dollars)

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

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

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

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

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

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

(Stated in thousands of dollars)

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

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

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

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

(Stated in thousands of dollars)

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

Capital Management Measures

a) Funds from Operations

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

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

(Stated in thousands of dollars)

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

b) Excess Cash Flow

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

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

(Stated in thousands of dollars)

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

c) Working Capital

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

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

(Stated in thousands of dollars)

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

d) Net Debt (Net Cash)

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

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

(Stated in thousands of dollars)

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

e) Net Capital Expenditures

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

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

(Stated in thousands of dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2022	2021	**2022**	2021
Additions to drilling and other equipment (Capital expenditures)	**21,474**	11,122	**73,525**	35,281
Deduct:				
Proceeds on disposition of drilling equipment	**(12,005)**	(5,236)	**(27,459)**	(12,340)
Net capital expenditures	**9,469**	5,886	**46,066**	22,941

Supplementary Financial Measures

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

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

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

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

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

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