ANNUAL INFORMATION FORM

Year ended December 31, 2021

March 31, 2022

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CERTAIN REFERENCES

In this AIF, unless the context otherwise requires, references to "Corporation" or "PHX Energy" refer to PHX Energy Services Corp. (either alone or together with its subsidiaries as the context requires).

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information contained in this AIF constitute forward-looking statements and information. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements and information. 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 AIF should not be unduly relied upon. These statements speak only as of the date of this annual information form or as of the date specified in the documents incorporated by reference into this annual information form, as the case may be.

In particular, this annual information form, and the documents incorporated by reference, may contain forward-looking statements pertaining to the following:

- commodity prices, foreign currency exchange rates and interest rates;
- capital expenditure programs and other expenditures;
- anticipated oilfield service activity levels and the potential for further volatility in 2022;
- anticipated producer capital spending programs in North America in 2022;
- the anticipated strengthening of commodity prices in 2022;
- the potential impact of the continuing COVID-19 pandemic on the Corporation, oilfield service activity, global economy, specifically trade, manufacturing, supply chain and energy consumption, among other things;
- the potential for growth within the Corporation's US and Canadian operations in 2022;
- the anticipated continuing demand for the Corporation’s High Performance Technologies;
- the Corporation’s ability to maintain its market share in both Canada and the US;
- the anticipated strengthening of drilling activity year-over-year in Canada and the US in 2022;
- the Corporation’s belief that it will grow revenue and activity with improving industry rig counts and will be in a position to build financial strength;
- supply and demand for oil and natural gas and oilfield services;
- expectations regarding the Corporation's ability to raise capital, when required;
- expectations regarding business expansion;
- treatment under governmental regulatory and taxation regimes;
- schedules and timing of certain projects and the Corporation's strategy for growth;
- projections of market prices and costs;
- the continuing impact of Corporation's cost reduction strategies;
- amounts to be retained by the Corporation for capital expenditures and to manage seasonal fluctuations in operating cash flow;
- anticipated expenditures and plans related to the Corporation's 2022 capital program and method of funding thereof;
- the Corporation's future operating and financial results and opportunities for higher operating margins;
- the Corporation's business objectives and strategies;
- the anticipated award of tenders in the Middle East region and increased activity levels in the region;
- the anticipated opportunities to be created by the investment in DEEP including the ability to diversify the Corporation’s business to include providing its services on renewable energy projects;

- dependence on equipment suppliers and equipment improvements;
- reliance on, and relationships with, existing customers;
- availability of required supplies;
- competitive conditions and the Corporation's competitive position;
- the expansion of services and operations in Canada, the US and internationally;
- the timing for receipt of regulatory, governmental and stock exchange approvals;
- operating risk and liability; and
- the Corporation's dividend policy and expectation it will continue.

The actual results could differ materially from those anticipated in these forward-looking statements and information as a result of the risk factors set forth below and elsewhere in this AIF:

- liabilities inherent in the Corporation's operations;
- impact of epidemics or pandemics, including COVID-19, or other health crises;
- uncertainties associated with sector activity levels;
- competition for, among other things, capital, acquisitions and skilled personnel;
- ability to raise capital and to satisfy substantial capital requirements;
- incorrect assessments of the value of acquisitions;
- technical difficulties and problems;
- increased competition;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry;
- changes in laws;
- changes in political environment;
- timing of regulatory approval and development of industry related infrastructure;
- effect of recent environmental legislation discussed under "*Industry Conditions*"; and
- the other factors discussed under "*Risk Factors*".

In addition to other factors and assumptions which may be identified in this AIF, assumptions have been made in respect of such forward-looking statements and information regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the Corporation to carry on business in a safe, efficient and effective manner; the ability of the Corporation to obtain financing on acceptable terms; commodity prices, currency, exchange and interest rates; and, the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates. Although the Corporation believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements and information as the Corporation can give no assurance that such expectations will prove to be correct.

Readers are cautioned that the foregoing list of factors is 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 Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). Although the forward-looking statements and information contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements and information. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Corporation assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward-looking statements and other information contained herein concerning the oil and natural gas services industry and the Corporation's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

GLOSSARY

In this annual information form, the following words and phrases have the following meanings, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**AIF**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to this annual information form of the Corporation;

"**Atlas**" means Atlas High Performance Drilling Motors, the Corporation's new drilling motor technology;

"**Common Shares**" means the common shares in the capital of the Corporation;

"**Corporation**" or "**PHX Energy**" means PHX Energy Services Corp., a corporation incorporated pursuant to the ABCA and includes its predecessors where applicable;

"**COVID-19**" means the 2019 novel coronavirus and variants thereof;

"**E-360 EM MWD**" means PHX Energy's proprietary electromagnetic MWD as further described under the heading "*Description of PHX Energy's Business and Operations – PHX Energy's E-360 EM & P-360 Mud Pulse MWD System*" of this AIF;

"**EM**" means electromagnetic telemetry;

"**High Performance Technologies**" refers to the Corporation's most recently released technology products, including Velocity, Atlas and PowerDrive Orbit RSS;

"**Income Tax Act**" or "**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1. (5th Supp), as amended, including the regulations promulgated thereunder;

"**MENA"** means Middle East and North Africa;

"**MWD**" means measurement while drilling guidance system, a system used for directional drilling of wellbores;

"**NAFTA**" means the North American Free Trade Agreement between the government of Canada, the government of Mexico and the Government of the US, December 17, 1992, entered into force January 1, 1994;

"NESR Arrangement" means the Corporation's technology arrangement with National Energy Services Reunited Corp ("**NESR**"), pursuant to which the Corporation expects to provide Atlas and Velocity for use in NESR's directional drilling operations in the MENA region;

"**PHX Energy Group**" means the Corporation and its direct and indirect subsidiaries, as the case may be;

"**PowerDrive Orbit RSS**" means the RSS that PHX Energy has acquired and also rents from Schlumberger Limited as further described under the heading "*Description of PHX Energy's Business and Operations – PowerDrive Orbit RSS*" of this AIF;

"**PTSI**" means Phoenix Technology Services Inc., a corporation duly formed and existing pursuant to the ABCA;

"**RSS**" means rotary steerable system, a system used for directional drilling of wellbores;

"**RSS Purchase Agreement**" means an agreement entered into in November 2018 between PHX Energy and Schlumberger Limited for the purchase of PowerDrive Orbit RSS and accompanying licenses for PHX Energy's US subsidiary, Phoenix Technology Service USA Inc., to operate the PowerDrive Orbit RSS throughout the 48 contiguous states of the US;

"**Shareholders**" means holders of Common Shares;

"**TSX**" means the Toronto Stock Exchange;

"**US**" means United States of America;

"**USMCA**" means the United States Mexico Canada Agreement, sometimes referred to as the Canada United States Mexico Agreement ("**CUSMA**"), which agreement was signed by the governments of Canada, Mexico, and the US on November 30, 2018. The USMCA was ratified by Mexico in June 2019, ratified by the United States in January 2020 and ratified by Canada on July 1, 2020. USMCA replaces NAFTA;

"**Velocity**" means Velocity Real-Time System, the Corporation's new MWD platform as further described under the heading "*Description of PHX Energy's Business and Operations – Velocity Real-Time System*" of this AIF;

"**WCS**" means Western Canadian Select, a grade of heavy crude oil derived from a mix of heavy crude oil and crude bitumen blended with diluents that is often used to represent the price for Canadian heavy crude oils; and

"**WTI**" means Western Texas Intermediate, a light sweet crude oil that is typically referenced for the pricing at Cushing, Oklahoma.

Unless otherwise specified, information in this annual information form is as at the end of the Corporation's most recently completed financial year, being December 31, 2021.

All dollar amounts herein are in Canadian dollars unless otherwise stated.

BACKGROUND

General

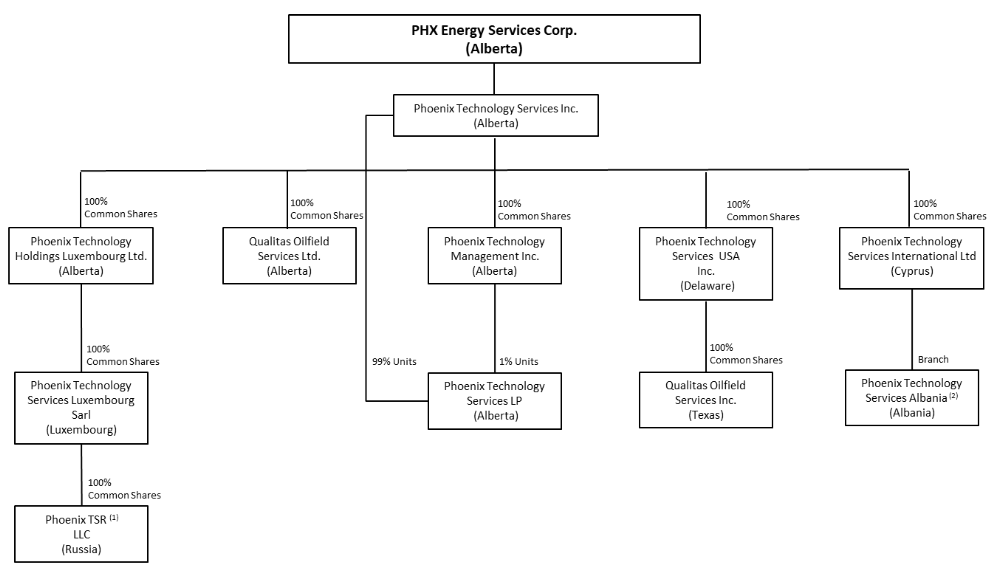
PHX Energy is a growth oriented, public oil and natural gas services company. The PHX Energy Group provides horizontal and directional drilling services to oil and natural gas exploration and development companies principally in Canada and the US. In connection with the foregoing, PHX Energy engineers, 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 in North America.

The Corporation was originally founded in 1995 and following various acts, amendments, amalgamations and arrangements, the Corporation became publicly traded in November 2002 on the TSX Venture Exchange as Phoenix Technology Services Inc. In March 2003, the common shares of Phoenix Technology Services Inc. were listed and posted for trading on the TSX under the symbol "PHX". In July 2004, pursuant to a plan of arrangement, the Corporation's common shares were converted to trust units and it became an income trust trading on the TSX as Phoenix Technology Income Fund. Pursuant to a subsequent plan of arrangement in October 2010, the trust units of Phoenix Technology Income Fund were converted to common shares of PHX Energy Services Corp., a corporation incorporated under the ABCA.

The common shares of PHX Energy Services Corp. trade on the TSX under the symbol "PHX". The head and principal office of PHX Energy is located at Suite 1400, 250 – 2nd Street S.W., Calgary, Alberta, T2P 0C1 and its registered office is located at Suite 2400, 525 – 8th Avenue S.W., Calgary, Alberta, T2P 1G1.

Intercorporate Relationships

The following diagram sets out the current organizational structure of the Corporation, as well as the name, the percentage of voting securities owned, controlled or directed, directly or indirectly, by the Corporation and the jurisdiction of incorporation, continuance, formation or organization of the Corporation's material subsidiaries.



Note:

(1) In 2021 the Russian division represented only 3% of the Corporation’s consolidated revenue and 2% of total assets.

(2) Due to economic uncertainties and reduced local drilling activity levels, Albania operations were suspended throughout 2021.

GENERAL DEVELOPMENT OF PHX ENERGY'S BUSINESS

General

The Corporation has been engaged in the business of providing horizontal and directional drilling technologies and services to the oil and natural gas industry since it was founded in 1995. The Corporation became a publicly traded corporation in November of 2002. Since commencement of its operations, the Corporation has executed its growth strategy through reinvestment of cash flow, combined with both corporate and asset acquisitions. Financing for these programs was obtained through a combination of cash flow from operations, various equity issues and bank credit facilities.

Three Year History

General

Commencing in early 2020, oil prices declined significantly due to softening global demand caused, in part, by the COVID-19 pandemic. This volatile situation continued through the balance of 2020, all of 2021 and has continued into early 2022 with sequential waves of the pandemic. Although the pandemic is ongoing, with vaccines becoming widely available, there was an easing of restrictions by most governments which lead to improved industry and economic conditions in 2021. This led to a strengthening in commodity prices and the start of an industry recover with an increase in drilling activity. The Corporation saw a general improvement in activity levels, revenue and profitability in all operating regions in 2021 as its technology and expertise were in high demand. 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. While the oil and natural gas industry showed signs of a recovery during 2021, and thus far in 2022, the industry rig counts remain low on a historical basis. As a service provider to the energy industry, any substantial and extended volatility and decline in the price of oil and natural gas, in conjunction with decreased industry activity, would have an adverse effect on, among other things, the Corporation's operations, revenues and financial condition. See *"Risk Factors – Public Health Crisis", "Risk Factors – Demand for Services – Globally", and "Risk Factors – Inflation and Cost Management".*

Year Ending December 31, 2021

In December 2020, PHX Energy announced its initial 2021 capital expenditure program of $15 million, which was mainly allocated toward expanding the fleet of High Performance Technologies. Additionally, the Corporation announced the reinstatement if its quarterly dividend program with the first dividend payable on January 15, 2021.

In 2021, PHX Energy saw increased demand for its services as commodity prices strengthened and industry began to recover from the negative impact of COVID-19. With improved activity levels, the Corporation expanded its fleets to protect its position as a leader in its sector. In this more favourable environment, PHX Energy continued to strengthen its financial position, generating increased revenue and positive net earnings, maintaining a cash positive position with no borrowings under its bank loans, re-purchased shares under its 2021 NCIB (as defined below) and reinstated a quarterly cash dividend. In 2021, the US represented 78% of consolidated revenue.

In March of 2021, PHX Energy announced it entered into the NESR Arrangement pursuant to which the Corporation has agreed to provide Atlas motors and Velocity systems to National Energy Services Reunited Corp (**"NESR"**) for use in the MENA region. The Corporation's Velocity and Atlas technology were subject to a qualification process, and both obtained certification in the second and third quarter, respectively. As part of the qualification process, Atlas and Velocity were utilized to drill multiple wells, and during this process set new operating records. With the technologies certified, NESR submitted tenders for services and based on the performance during the qualification process, the Corporation is optimistic that the tenders will be successful and it will become an active supplier in the region.

In March 2021, PHX Energy released its inaugural ESG & Sustainability Report illustrating its commitment to responsible and sustainable practices**.** A copy of the complete report can be found on the Corporation's website at www.phxtech.com.

On April 9 2021, the Corporation announced a $10 million increase to its 2021 capital expenditure program to $25 million. The increase was primarily directed to expanding the fleet of Velocity systems and Atlas motors to meet the anticipated demand within its global operations as the Corporation expected to reach capacity in the later half of 2021. In the first quarter of 2021, the Corporation experienced an uptick in activity and anticipated a further strengthening in its North American operations as well as additional fleet requirements related to the NESR Arrangement.

In July 2021, the Corporation announced it made a strategic equity investment of $3 million in geothermal power developer, DEEP Earth Energy Production Corp. ("**DEEP**"), with a provision for another potential $3.5 million of equity injection upon exercise of share purchase warrants held by PHX Energy. DEEP is currently developing a geothermal power facility in southern Saskatchewan which has the potential to become the first major geothermal power facility in Canada. The investment in DEEP provides an opportunity for the Corporation to diversify the business to include a renewable energy project as management continues to focus on strategies to ensure long-term sustainable growth for the business. In conjunction with its investment in DEEP, the Corporation is expected to provide technical expertise as the project merges highly skilled oil and gas expertise with specialized geothermal reservoir and power generation expertise.

In August 2021, the Corporation increased its quarterly dividend from $0.025 per common share to $0.05 per common share payable October 15, 2021. Additionally, a second increase to its capital expenditure was announced of $10 million to $35 million. The increase to the capital expenditure program was primarily dedicated to growing and maintaining the High Performance Technology fleets to meet continued greater demand for services and in light of supply chain disruption that began to arise. The Corporation undertook strategic initiatives to mitigate the impact of these challenges placing orders well in advance and dedicating a portion of its capital expenditures to long-lead items required for maintenance and manufacturing.

In August 2021, PHX Energy renewed its normal course issuer bid (the "**2021 NCIB**") pursuant to which PHX Energy is eligible to purchase for cancellation, from time to time, up to a maximum of 3,679,797 Common Shares, which at the time of commencement of the 2021 NCIB represented 10% of the Corporation's public float of Common Shares outstanding. The 2021 NCIB will terminate on August 15, 2022 or such earlier time as the NCIB is completed or terminated at the option of PHX Energy.

During the 2021-year, the Corporation spent $35.3 million on its capital expenditures program, primarily directed towards its High Performance Technology fleets. During the year, the Corporation increased its Velocity fleet by 18 systems, its Atlas fleet by 56 motors and 15 RSS. With oil prices surpassing pre-pandemic levels and ongoing global supply chain disruptions, the Corporation worked to maintain a proactive strategy focused on growing its fleet of High Performance Technologies to benefit from the robust demand for oil and gas services.

Year Ending December 31, 2020

In February 2020, PHX Energy announced its initial 2020 capital expenditure program of $30 million, which was mainly allocated toward expanding the fleet of High Performance Technologies.

In 2020, PHX Energy suffered a significant decline in the demand for its services due to the negative impact of COVID-19 on commodity prices and the associated reduction in the industry's capital spending and drilling activity. Despite this PHX Energy strengthened its financial position, eliminated all borrowings under its bank loans, re-purchased shares under its 2020 NCIB (as defined below), operated with positive margins and maintained a cash positive position. Aligning the Corporation's cost structure with the reduced activity levels was a key strategy in 2020 and numerous cost-reducing initiatives were implemented primarily during the second quarter. In addition, the Corporation utilized various government assistance programs available for businesses in North America. Even with the industry downturn and industry activity in Canada and the US reaching historic lows, the Corporation's services and High Performance Technologies remained in demand. In Canada the Corporation was able to maintain its healthy market share and in the US the Corporation grew market share to the highest level in its history. In 2020, the US represented 79% of consolidated revenue.

In the first quarter of 2020, PHX Energy ceased operations in its Stream Services ("**Stream**") division. The Stream division struggled to compete in the drilling market and the alternative markets being explored had lower rates. As a result, the division could not generate the volumes required for it to have a positive and meaningful impact to the Corporation's financial position. Based on this, the impact of COVID-19, WTI oil price instability, the mounting 2020 economic crisis, and in light of the outlook for the Canadian oil and gas sector, the Corporation began significant cost reduction measures, which included the decision to shut down the Stream division.

In May 2020, the Corporation announced it had reduced its anticipated capital expenditure program to $27.5 million and had suspended new capital expenditures as a result of the deteriorating economic and industry environment.

In August 2020, PHX Energy renewed its normal course issuer bid (the "**2020 NCIB**") pursuant to which PHX Energy could purchase for cancellation, from time to time, up to a maximum of 3,131,388 Common Shares, which at the time of commencement of the 2020 NCIB, represented 10% of the Corporation's public float of Common Shares outstanding. The 2020 NCIB commenced on August 14, 2020 and terminated with PHX Energy having purchased the entire allotment of 3,131,388 Common Shares available for re-purchase at a weighted-average purchase price of $1.58 per share.

With the strength of the Corporation's financial position, in December of 2020, the Corporation's Board approved the reinstatement of a quarterly dividend program with the first cash dividend being declared in the amount of $0.025 per Common Share payable on January 15, 2021, to shareholders of record at the close of business on December 31, 2020.

Year Ending December 31, 2019

In November 2018, PHX Energy announced its initial 2019 capital expenditure program of $15 million. The initial 2019 capital expenditure program was mainly allocated toward expanding the Velocity and Atlas fleets to aide the further increases in activity, specifically in the Corporation's US operations.

In 2019, PHX Energy continued its focus on expanding its High Performance Technology fleets and growth in the US market. Despite declines in the North American rig count, revenue, margins and profitability saw year-over-year growth, which was primarily driven by higher consolidated revenue per day generated from the Corporation's offering of High Performance Technologies and increased activity in the US. The US division lead the Corporation's growth even with slower industry activity and the US represented 75% of consolidated revenue. In contrast, the Corporation's Canadian operations saw a decline in line with the decreases in industry activity, as the challenges in the Canadian energy sector persisted. PHX Energy expanded its Atlas fleet in 2019 to include additional configurations for a wider range of drilling applications. In addition, PHX Energy increased the capacity of its Atlas, Velocity and RSS fleets, which generate higher margins. PHX Energy maintained a diligent focus on maintaining its strong financial position in 2019 and a low level of debt.

On April 8, 2019, PHX Energy announced an increase to its 2019 capital expenditure program to $25 million. The increase to the 2019 program was principally directed to the expansion of PHX Energy's Velocity fleet for activity anticipated in early 2020 with the remainder of the increase to be allocated toward maintenance of the Velocity and performance motor drilling fleets. The Corporation's Velocity fleet operated at full capacity for many quarters and additional systems were required to meet anticipated increases in demand. In the third quarter, PHX Energy announced a further increase to the 2019 capital expenditure program to $30 million to further fund the ongoing expansion of the Corporation's High Performance Technology fleets.

In August 2019, PHX Energy renewed its normal course issuer bid (the "**2019 NCIB**") pursuant to which PHX Energy could purchase for cancellation, from time to time, up to a maximum of 3,280,889 Common Shares, which at the time of commencement of the 2019 NCIB, represented 10% of the Corporation's public float of common shares outstanding. The 2019 NCIB commenced on August 9, 2019 and terminated on August 8, 2020. PHX Energy purchased an aggregate of 2,524,500 Common Shares pursuant to the 2019 NCIB at a weighted-average purchase price of $2.74 per share.

On September 6, 2019, PHX Energy announced a further increase to its 2019 capital expenditure program to $35 million. The increase to the 2019 program was primarily directed to the purchase of long lead items required to further expand the Atlas and Velocity fleets for anticipated activity in 2020.

Recent Developments in 2022

In February 2022, the Corporation increased its quarterly dividend from $0.05 per common share to $0.075 per Common Share commencing with the dividend made payable April 18, 2022.

SIGNIFICANT ACQUISITIONS

There were no significant acquisitions completed by the Corporation during its most recently completed financial year for which disclosure is required under Part 8 of National Instrument 51-102.

DESCRIPTION OF PHX ENERGY'S BUSINESS AND OPERATIONS

Since its founding in 1995, PHX Energy's core business has revolved around the provision of horizontal and directional services utilizing MWD guidance systems and downhole performance drilling motors. In conjunction with computer software programs, various tubulars, subs and other equipment, PHX Energy controls the drilling of a customer's wellbore to a prescribed bottomhole location. In 2001, PHX Energy established a research and development department with a mandate to create greater efficiencies and new technologies which the Corporation could provide to its customers. In recent years, PHX Energy has leveraged its research and development, engineering, manufacturing and operational expertise to develop various new technologies that have positioned PHX Energy as a technology leader in the horizontal and directional drilling sector.

Directional and Horizontal Drilling

New drilling techniques and growth in unconventional wells have increased the need for directional and horizontal well services. Accuracy is key to a successful horizontal or directional well and therefore advanced equipment and highly skilled operators are vital. PHX Energy has strived to meet these challenges with the development and acquisition of leading-edge technology as well as the training and provision of expertise.

Directional drilling is employed to drill to a target reservoir which would be otherwise inaccessible with a vertical well. Such target reservoirs typically exist beneath a physical barrier, such as a body of water or an urban development. In these instances, the wellbore must be steered toward the target beneath the surface of the earth.

Horizontal drilling is now widely employed to maximize productivity of a reservoir as one horizontal well has the potential to yield the production of several individual vertical wells. Horizontal wells drill through rather than into a reservoir exposing the wellbore to a greater span of the oil or natural gas-bearing formation. Horizontal drilling can also be employed to increase productivity on a tighter or less permeable reservoir that might flow at a lower rate if drilled vertically.

Horizontal and directional drilling allow for pad drilling where multiple wellbores are drilled from a single surface location. In recent years, the utilization of pad drilling has increased as it creates significant cost savings for producers, allows more efficient production and decreases the environmental footprint of drilling operations.

In order for a horizontal or directional well to be steered accurately towards a target, specialized tools are required to measure, direct and alter the orientation of the drill bit. Essential to this process is the steerable downhole performance drilling motor (also known as a performance drilling motor, bent steerable motor or mud motor) and the MWD system. For certain drilling applications, RSS tools are also deployed along with the MWD system and performance drilling motor to enhance trajectory control. During the drilling process, the MWD system provides vital information to the operator regarding inclination, direction and toolface orientation, as well as reservoir information communicated through natural gamma ray radiation sensors. Operators use this information to guide the drill bit toward the target, reorienting the steerable performance drilling downhole motor and RSS as required.

MWD Telemetry and Downhole Measurement Technologies

Unified Telemetry

Unified telemetry is a characteristic of the Velocity system allowing it to transmit information from downhole to the surface via mud pulse telemetry, EM telemetry or a combination of both telemetries simultaneously. Velocity has the ability to receive commands from surface, while the tool is downhole, allowing the operator to optimize performance and ensure efficient use of batteries, reducing both cost and environmental impact while improving the well construction process. See "*PHX Energy's High Performance Technologies*".

When Velocity is downhole and the wellbore encounters an EM resistive zone, the unified telemetry system can switch from EM to mud pulse telemetry, allowing continued data transmission and uninterrupted drilling operations. In contrast, when traditional EM MWD tools drill through an EM resistive zones and are unable to transmit information to surface, drilling is halted so that the tool can be removed from the wellbore and replaced with a different MWD tool – a process that can often take in excess of 24 hours which is considered non-productive time.

Mud Pulse Telemetry

One of the first techniques for wirelessly transmitting data from a downhole location to the surface, mud pulse telemetry employs positive or negative pressure pulses to encode information. A choke (positive pulse) or a vent to the annulus (negative pulse) is used to create fluctuations in the overall pressure of the fluid being pumped down the drill string. These pressure pulses are encoded in patterns, sent to the surface and decoded as near real-time downhole data, communicating the location of the well to the operator. A mud pulse signal produces reliable signals which remains strong, regardless of depth from the surface, and are not susceptible to elements exterior to the drilling mud system. Disadvantages of mud pulse tools include the need for mud pumps to be running in order to transmit data which can delay surveys and the signal's inability to transmit if the percentage of natural gas in the drilling medium is too high.

Electromagnetic Telemetry

Electromagnetic ("**EM**") telemetry can produce a higher data rate and the ability to transmit during pipe connections meaning that surveys from the MWD tool can be received in close to real-time. Paired with its lack of moving parts, the electromagnetic MWD tool is reliable and cost-effective. As a result, demand has increased for electromagnetic MWD tools and it is now often the system of choice in the directional and horizontal drilling industry. With these tools, data is encoded as an electric signal and sent to the surface. The signal is detected by several electrodes, or antennae, where it is then de-modulated and displayed for the operator's use. Though this technique is generally very dependable, some rock formations are impervious to the electromagnetic signal, putting an electromagnetic tool at a disadvantage under certain circumstances.

Downhole Performance Drilling Motors

Downhole performance drilling motors (also known as bent steerable motors or mud motors) are utilized in most drilling applications and are powered hydraulically by drilling fluid to enable rotation of the drill bit with little or no rotation of the drill string. It is these motors that create the angle in the wellbore, as they can be set with a slight bend. There have been new advancements developed for these motors that have increased their performance in certain drilling conditions. Specifically, rig contractors have developed what are known as high specification rigs that have greater limits for operating parameters, and the additional capabilities of these rigs have driven the advancement of drilling motor technology to also operate under these higher operating limits. These new performance drilling motors, including PHX Energy's Atlas motors are designed to be more robust, produce a higher power output and propel faster drilling results. See " *PHX Energy's High Performance Technologies*".

Research and Development Projects

PHX Energy's in-house research and development department has two main functions. Firstly, to provide on-going upgrades to the Corporation's existing fleet of MWD and performance drilling motor equipment, and secondly, to develop industry leading directional drilling technology that PHX Energy can take to its customers in an effort to drill wells faster and more accurately.

The success of PHX Energy's research and development department has allowed PHX Energy to become one of the most reliable and innovative providers in the drilling market.

PHX Energy's High Performance Technologies

Velocity Real-Time System

PHX Energy, in collaboration with leading-edge engineering companies in North America, developed a new MWD platform, the Velocity Real-Time System ("**Velocity**"). Velocity is designed to improve reliability and provide innovative mechanical, directional, and formation measurements to enhance the drilling process. Velocity is equipped with unified telemetry which allows this system to send downhole data to the surface via EM telemetry and mud pulse telemetry. EM telemetry is the preferred method of transmission across the industry, however, certain drilling formations are resistive to EM signals and in these zones, Velocity can utilize mud pulse telemetry to continue to send information to surface. Velocity can instantaneously switch between these two transmissions modes while downhole, minimizing down time for the drilling operation. Velocity is additionally equipped with the ability to transmit data at higher rates and therefore can provide a greater number of measurements to the operator, including continuous inclination. The Velocity system is the most frequently deployed MWD telemetry system in the Corporation's fleet and PHX Energy continues to advance the Velocity System through its research and development efforts.

Atlas High Performance Drilling Motor

In 2017, PHX Energy commercialized its first Atlas motor configuration, the 7.25" Atlas motor. After the successful operation of the 7.25" Atlas motor, the Corporation began to expand the fleet and design additional configurations, including the 5.13", 5.25", 5.76", 6.63", 7.12", 7.25", 8" and 9" Atlas motors, that are deployed during different sections of a well and on a greater variety of drilling applications. Atlas was designed to provide greater horsepower to the drilling operation, reliably perform under more aggressive drilling parameters, drill the multiple sections of a well continuously, and to extend downhole run life. The proprietary design optimizes the geometry of the motor for increased reliability and performance, which includes a larger outer diameter. Atlas was developed and manufactured internally and complements other recently commercialized technology, namely Velocity.

PowerDrive Orbit RSS

In 2018, PHX Energy entered into the RSS Purchase Agreement to acquire an initial fleet of Schlumberger PowerDrive Orbit RSS. The RSS Purchase Agreement includes an accompanying license for PHX Energy's US subsidiary, Phoenix Technology Service USA Inc. to operate the PowerDrive Orbit RSS throughout the 48 contiguous states of the US. Under the RSS Purchase Agreement, PHX Energy has the option to purchase additional PowerDrive Orbit RSS systems in addition to its existing option to rent the PowerDrive RSS on a per job basis in connection with its full service operations. Since 2018, PHX Energy has continually expanded its fleet of PowerDrive Orbit systems as part of its annual capital expenditure programs and currently has the largest independent fleet in the US. The PowerDrive Orbit RSS technology is widely recognized as the industry's leading RSS technology and the Corporation is the first company to enter an agreement of this nature with Schlumberger. RSS tools are designed to drill directionally with continuous rotation from the surface, eliminating the need to pause the drill string rotation to steer the wellbore as is required with a performance drilling motor. State-of-the-art rotary steerable systems, such as the PowerDrive Orbit RSS, have minimal interaction with the borehole, thereby preserving wellbore quality and exert consistent side force while continuously rotating at the same number of rotations per minute as the drill string.

Prior to entering into the RSS Purchase Agreement, PHX Energy and Schlumberger partnered for a number of years on a rental basis, to provide Schlumberger's RSS in combination with PHX Energy's directional drilling services. As a result of this partnership, PHX Energy has developed internal engineering and operational competencies to successfully deploy RSS technology on drilling projects throughout the US. RSS services are a growing segment of the directional drilling industry in the North America and this technology provides the Corporation with the opportunity to generate higher operating margins. The PowerDrive Orbit RSS technology compliments PHX Energy's suite of recently commercialized technology, and when this system is operated in conjunction with Atlas and Velocity, provides PHX Energy with a proprietary drilling solution.

At-Bit System

PHX Energy has developed an At-Bit system that enhances the data provided by the MWD system and provides more accurate and precise downhole measurements. The sensors in an MWD system are situated 10-20 meters behind the drill bit, which requires projections to be utilized to determine the location of the drill bit. The At-Bit system is located directly behind the drill bit, and is equipped with sensors that transmit advanced measurements to the MWD tool, where it is processed and sent to the surface. The At-Bit system improves directional control and wellbore placement as it allows operators to more accurately determine the location of the drill bit during the drilling process.

Echo System

The patent protected Echo system was developed by PHX Energy to work in unison with Velocity to improve data transmission in areas that are typically problematic for EM signal. EM transmission is the method of choice as it allows for faster drilling operations, however, there are certain formations that are impervious to EM signal and certain drilling conditions that can negatively impact the effectiveness of Velocity's unified telemetry. The Echo system was designed to overcome this challenge and can be utilized for multiple wells once it is deployed. The Echo system is an antenna that is strategically placed downhole in a well that has already been drilled and has wireline connected to a receiver on surface. When Velocity's signal cannot be detected on the surface of an active drilling operation, Echo can detect Velocity's EM signal transmission from nearby active well and can transmit the signal through the wireline to its surface receiver. The Echo system allows for more reliable and uninterrupted drilling operations which saves the operator time and reduces unproductive time.

Remote Drilling Operations

Prism Drilling Optimization

With the development of its Prism Drilling Optimization Center, PHX Energy has been able to increase efficiency, enhance quality control and lower drilling costs. Prism utilizes dedicated wireless telecommunications technology in the field to transmit the details of multiple jobs to trained personnel located at a central command centre. As a result of this technology, job monitoring, decoding and directional drilling inputs can in some instances take place at one central location. This technology can be used to offer remote services where fewer personnel are deployed to each rig site or can be used to monitor drilling quality on wells. Having fewer staff deployed in the field decreases costs and safety risks and remote monitoring increases the potential for quality control on any given application.

Connect Surface System

Connect is a web-based interface that allows personnel in remote drilling centers immediate access to pertinent directional drilling information from the rig site.

PHX Energy's Legacy Technology

E-360 EM & P-360 Mud Pulse MWD System

PHX Energy's proprietary E-360 EM MWD (previously branded the "**CLT EM-MWD**") tool was developed to eliminate many problems facing electromagnetic tools. The signal-generating portion of the E-360 EM MWD tool is equipped with a longer transmission range and a lower rate of battery consumption, enabling data to be transmitted through precarious regions without wasting power. In 2017, an enhancement was developed that allows the E-360 EM MWD tool to automatically adjust its operating parameters to optimize performance in challenging environments.

The P-360 Mud Pulse MWD System rugged design was developed to withstand harsh environments and high drilling velocities. It provides reliable performance and is equipped the ability to transmit data transmission quickly via the drilling mud system.

360^{RWD} Resistivity While Drilling System

PHX Energy, working in conjunction with a trusted third party vendor, has developed a resistivity while drilling system that can be easily adapted to run with the Corporation's current fleet of positive pulse MWD equipment. This tool provides real-time information about the resistive nature of the rock the customer is drilling through. This data gives the customer an extra level of information about the formation of interest and this data is utilized to ensure they drill in the most optimal location within the respective zone. Having the ability to offer resistivity while drilling to customers around the world puts PHX Energy in a small group of directional drilling contractors that can offer this technology.

360^{CV} Clear Vision MWD Tool

The 360^{CV} MWD tool uses the same technology as the Corporation's positive pulse MWD system, however, measurement sensors are positioned directly behind the motor. With traditional MWD tools, measurements are taken 17 meters (52 feet) from the bit. With the 360^{CV} MWD tool, however, the distance is reduced to approximately 10 meters (32 feet) from the bit. Reducing the bit to sensor distance allows the directional driller to more accurately project the true inclination and direction of the wellbore at the bit, allowing for a smoother wellbore with less tortuosity. This reduces drilling risk and improves drilling efficiency.

Trends

Business Climate

Commodity Prices

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% higher in 2021 and the average price of Western Canadian Select ("**WCS**") doubled year-over-year. The average differential between WTI and WCS remained relatively consistent with the prior year. Natural gas commodity prices have strengthened over 2021 to levels not seen in over 5 years as supply levels decreased.

North American Industry

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.

Canadian Industry

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% 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% of the total 2021 industry drilling days. Oil well drilling represented 57% of the Canadian industry's average active rig count in 2021 which is slightly higher than the 52% in 2020. (Source: Daily Oil Bulletin and Baker Hughes).

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

US Industry

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% annually to 478 rigs operating per day in 2021, 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 in the Permian basin and in December there were 288 active rigs in this lucrative basin. Horizontal and directional drilling continued to represent 95% of active rigs.

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% in 2022 (Source: Peters & Co. Limited and Baker Hughes).

Outlook

In 2022 commodity prices have strengthened to levels not seen since 2014 and with improving industry conditions rig counts continue to show gains. In this favourable environment the Corporation is experiencing strong demand for its High Performance Technology fleet in North America and anticipates that this momentum will continue in both

Canada and the US throughout 2022. With its 2022 capital program it intends to increase its fleet capacity to meet anticipated demand and maintain market share. The Corporation anticipates that the supply chain disruption that became evident in the second half of 2021 will continue and has leveraged its strong financial position to proactively order materials and equipment to mitigate this risk. However, delays are still occurring and shortages have been experienced in the first quarter of the year.

Although the commodity cycle is in a favourable phase, uncertainty and volatility remains with the current geopolitical environment and supply/demand imbalance. As a result of the continuing uncertainty, a conservative approach to industry spending in 2022 is anticipated to continue.

Market for Services

The following table shows the revenues derived from the Corporation's continuing operations by geographical region for the year end periods indicated below:

		December 31, 2021	December 31, 2020	December 31, 2019
	Canada	67,560	49,031	71,923
Revenue, $	US	272,492	185,058	270,028
(in 000's)	International	9,868	12,313	20,106
	Total	349,920	246,402	362,057

Note:
(1) See the Corporation’s financial statements filed on SEDAR for more detailed information.

In western Canada, drilling activity levels are seasonal in nature. Drilling activity is at its highest normally in the first and fourth quarters of a calendar year. The second quarter normally includes a period called "spring break-up", where drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land.

Customers

Customers are identified by PHX Energy through an analysis of their potential and/or historical horizontal and directional drilling levels and are contacted by one of PHX Energy's sales representatives. The customer base for PHX Energy's services encompasses major, intermediate and junior oil and natural gas exploration and production companies. In the year ended December 31, 2021, one customer comprised 27% of the total revenue. PHX Energy is generally retained by its customers on a well-by-well basis.

Contracts for Services

Contracts in the industry are generally awarded on the basis of technical expertise, equipment requirements, price, equipment availability, and industry safety records. A competitive bid process is generally used to award directional and horizontal drilling contracts. Bids are generally requested by the operator of the well on a work day basis. Under a work day contract, a fixed rate is charged for each day the equipment and crew are in operation. PHX Energy believes it can compete favourably with respect to all of these factors.

Employees

As at December 31, 2021, PHX Energy had 707 full time employees, including 5 executive officers. In addition, PHX Energy utilized approximately 120 field consultants in 2021. See also "*Directors and Officers*".

DIVIDENDS

In December, 2020 the Corporation announced that its Board of Directors had approved the reinstatement of a quarterly cash divided program commencing in January, 2021 in the amount of $0.025 per Common Share. In August 2021, the Corporation announced an increase to its quarterly dividend to $0.05 per Common Share and in February 2022, the Corporation announced a further increase to its quarterly dividend to $0.075 per Common Share. The following sets forth the dividends declared and paid since the reinstatement of the program through to the date of this AIF.

The following cash dividends were paid by the Corporation to holders of Common Shares for the periods indicated:

	Cash Dividend Per Common Share	
For the Quarter Ending	**2021**	**2022**
March 31,	0.025	0.075 [1]
June 30,	0.025	
September 30,	0.05	
December 31,	0.05	

Note:
(1) Declared and made payable April 18, 2022.

The quarterly dividend program is expected to continue, subject to reassessment by the Corporation's Board of Directors on at least a quarterly basis in light of industry conditions and such other factors as the Board of Directors may determine appropriate from time to time**.**

Other than the foregoing, no dividends were declared payable in any of the Corporation's last three completed financial years.

It is expected the dividends declared and paid, if any, will be "eligible dividends" for income tax purposes and thus qualify for the enhanced gross up and tax credit regime available to certain holders of Common Shares. Although it is expected that dividends of the Corporation will qualify as "eligible dividends" for the purposes of the Tax Act, and thus qualify for the enhanced gross up and tax credit regime available to certain holders of Common Shares, no assurances can be given that all dividends will be designated as "eligible dividends" or qualify as "eligible dividends".

The amount of future cash dividends, if any, paid by the Corporation will be subject to the sole discretion of the Board of Directors of the Corporation and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in operating costs and profits, working capital and capital expenditure requirements, debt service requirements, foreign exchange rates and the satisfaction of solvency tests imposed by the ABCA for the declaration and payment of dividends.

The Corporation's credit facilities contain certain restrictions on the level of dividends payable by the Corporation by virtue of a distributed cash flow covenant, the amount of which is calculated at the end of each calendar year.

For information relating to risks relating to dividends, see "*Risk Factors – Dividends*".

DESCRIPTION OF SHARE CAPITAL

PHX Energy is authorized to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to one vote per share at meetings of shareholders of PHX Energy, to receive dividends if, as and when declared by the Board of Directors of PHX Energy and to receive pro rata the remaining property and assets of PHX Energy upon its dissolution or winding-up, subject to the rights of shares having priority over the Common Shares.

MARKET FOR SECURITIES

Common Shares

The Common Shares are listed and posted for trading on the TSX under the symbol "PHX".

The following sets forth trading information for the Common Shares (as reported by the stock exchange on which such shares are listed) for the periods indicated:

	Price Range ($)		
Period	**High ($)**	**Low ($)**	**Volume**
2021			
January	2.75	2.40	1,200,213
February	3.03	2.48	3,098,717
March	3.05	2.57	1,220,419
April	3.5	2.71	2,614,314
May	3.99	3.34	1,785,523
June	4.67	3.78	1,843,262
July	4.55	3.75	1,265,141
August	4.75	3.96	2,614,422
September	4.94	4.30	1,079,104
October	5.7	4.78	1,123,797
November	5.43	4.09	914,161
December	4.66	3.96	1,831,074
2022			
January	5.29	4.22	1,042,221
February	6.21	4.98	3,523,269
March (1 – 30)	6.63	5.93	2,711,631

ESCROWED SECURITIES

There are no securities of the Corporation currently held in escrow.

DIRECTORS AND OFFICERS OF PHX ENERGY

The following table sets forth certain information respecting the directors and executive officers of PHX Energy as of the date of this AIF.

Name, Age, Province or State and Country of Residence	Office Held	Director Since	Principal Occupation
John M. Hooks Alberta, Canada Age: 64	Chairman and Chief Executive Officer	November 1995	Chairman and Chief Executive Officer (and formerly President) of PHX Energy and its predecessors since 1995; and Director of Canadian Energy Services LP since March, 2006.
Randolph M. Charron (1) (2)(3) Alberta, Canada Age: 67	Director	November 2002	President since July 2017 and Director since November 2015 of Star Valley Drilling Limited, a private Canadian drilling contractor with operations in Canada, Trinidad, Morocco and West Africa; Director of the Calgary Airport Authority since November 2019; President of Characo Corporation, a private oil and natural gas investment and consulting firm, since 1997; a Founding Director of Xtreme Drilling and Coil Services Corp. 2005 to 2018; a Director of Wrangler West Energy Corp. from 2003 to 2014; prior thereto, Vice President and Founding Director of Artisan Corporation, a publicly traded Canadian oilfield service provider. Mr. Charron has served the industry as a Director of the Canadian Association of Oil Well Drilling Contractors (CAODC) (April 1995 to April 1997), Chairman of the Petroleum Industry Annual Safety Seminar and Director of Program Committee of the Petroleum Industry Training Services.
Terry D. Freeman (1) Alberta, Canada Age: 61	Director	May 2018	Independent businessman; Fellow of the Institute of Chartered Professional Accountants of Alberta; a Director and Board Chair of McCoy Global, a tubular handling equipment business since 2009; a Director of Vertex Resources Ltd. since 2013 and Head of Investments for ATB Private Equity, LP, as well as a Director of a number of private real estate, construction and energy services businesses; Managing Director of Northern Plains Capital Corporation from 2007 to 2012; previously CFO (from 1992 to 2007) and a Director and Audit Committee Member (from 2007 to 2012) of Flint Energy Services Ltd.
Karen David-Green(1)(2) Texas, US Age: 52	Director	May 2020	Chief Communications, Stakeholder and Sustainability Officer for ExproGroup since 2021, a leading provider of global energy solutions. She has served in senior leadership positions on Wall Street for 15 years and in the corporate sector for 12 years, including serving as Sr. Vice President of Stakeholder Engagement and Chief Marketing Officer of Weatherford International plc from 2018-2020, and prior thereto Vice President, Investor Relations, Corporate Marketing & Communications. She served as President of the Weatherford Foundation, Inc., Chairwoman of the Sustainability Leadership Council, Executive Member of the Disclosure Committee, as well as co-founder of the Diversity Equity & Inclusion Network. Currently serves on the Board of Paragon Integrated Services Group, a private integrated energy and environmental service company based in Houston, Texas and on the Board of several non-profit organizations. Holds a Directorship Certification from the National Association of Corporate Directors.

Name, Age, Province or State and Country of Residence	Office Held	Director Since	Principal Occupation
Lawrence M. Hibbard [(1)(3)] Texas, US Age: 72	Director	February 2011	Independent businessman; Co-Founder and current Director of Highland Fluid Technology, a company deploying unique chemistry and technology to the drilling, fracking and completion business; Past Director of Trigpoint Solutions, Xtreme Drilling and Coil Services Corp. and Zahroof Valve Inc.; prior to 2005, spent a 32 year career with Schlumberger Limited working in four business units, the last 22 years in Senior Vice President level executive management positions primarily related to international operations. Mr. Hibbard is currently a National Association of Corporate Directors Board Leadership and Governance Fellow.
Myron A. Tétreault [(2)(3)] Alberta, Canada Age: 54	Lead Director	May 2007	Chairman of Calafate Holdings Ltd. (a private investment management and consulting company) since 1999; Director (since March, 2009) and Chairman (since September, 2013) of Pieridae Energy Limited (formerly Petrolia Inc.); Co-founder and Director of Fitzroy Developments Ltd. since 2003; Co-founder and Director (from 2003 to 2018) of Northern Vision Development LP and Co-founder and Director of FitzRoyalty Land Opportunities Fund LP since 2018; Director of Webber Academy Foundation from 1996 to 2018; Chairman of West Aspen Holdings Ltd. since 2018 and Chairman of Stoked Oats Ltd. since 2020. In 2022, Mr. Tetreault completed the ICD program through the Rotman School of Business and now holds the ICD.D designation.
Roger D. Thomas [(2)(3)] Alberta, Canada Age: 69	Director	June 2012	Independent businessman; prior to 2009 spent 31 years with Nexen Inc. in a variety of senior executive positions; Currently serves as Chairman of the Board and as a member of Audit Risk and Environment and Governance and Human Resources Committees of Fortis Alberta Ltd.; has held numerous Board positions for public and private companies along with industry organizations including the Canadian Association of Petroleum Producers, Alberta Chamber of Resources, Canadian Chamber of Commerce and the Nature Conservancy of Canada (Saskatchewan Region); Member of the Premier of Alberta's Carbon Capture and Storage Council and assisted with the Alberta Department of Energy's investment and competitiveness review in 2009.
Michael Buker Alberta, Canada Age: 52	President	N/A	President of PHX Energy since March, 2015; prior thereto, Senior Vice President North America Operations of PHX Energy and its predecessors since 2007 having progressed from Canadian Sales Manager and Vice President Sales and Marketing prior thereto; Director of McCoy Global, a tubular handling equipment business since 2021

Name, Age, Province or State and Country of Residence	Office Held	Director Since	Principal Occupation
Cameron M. Ritchie Alberta, Canada Age: 60	Senior Vice President, Finance, Chief Financial Officer and Corporate Secretary	N/A	Senior Vice President of Finance and Chief Financial Officer of PHX Energy and its predecessors since December 1997; Chartered Accountant (Chartered Professional Accountant) since 1986.
Jeffery Shafer Alberta, Canada Age: 47	Senior Vice President, Sales and Marketing	N/A	Senior Vice President Sales and Marketing of PHX Energy and its predecessors since 2007, having joined PTSI's sales department in 1999.
Craig Brown Alberta, Canada Age: 50	Senior Vice President, Engineering and Technology	N/A	Senior Vice President, Engineering and Technology of PHX Energy since September 2011; prior thereto, held various senior management positions with Schlumberger Limited from June 1994 to September 2011, the last of which was Geomarket Manager for Russian offshore operations.

Notes:

(1) Member of the Audit Committee.
(2) Member of the Human Resources & Compensation Committee.
(3) Member of the Nomination and Corporate Governance Committee.

The directors of PHX Energy shall hold office until the next annual meeting of PHX Energy or until their respective successors have been duly elected or appointed. As at December 31, 2021, the directors and executive officers of PHX Energy, as a group, beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 6,340,278 Common Shares, representing approximately 12.8% of the issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Cease Trade Orders

To PHX Energy's knowledge, other than as disclosed herein, no director or executive officer of the Corporation is, as at the date hereof, or was within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any issuer (including the Corporation) that: (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes of the above, "order" means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

Bankruptcies

To PHX Energy's knowledge, other than as disclosed herein, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation (a) is, as at the date hereof, or has been, within the 10 years before the date hereof, a director or executive officer of any issuer (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets or (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties or Sanctions

To PHX Energy's knowledge, other than as disclosed herein, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of PHX Energy and its subsidiaries are subject to in connection with the operations of the Corporation and its subsidiaries. In particular, certain of the directors and officers of PHX Energy are involved in managerial or director positions with other oil and natural gas service companies and other companies whose operations may, from time to time, be in direct competition with the Corporation or with entities which may, from time to time, provide financing to, or make equity investments in, the Corporation's competitors. In accordance with the ABCA, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with the Corporation or its subsidiaries are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate

The text of the Audit Committee's Mandate and Terms of Reference is attached as Schedule "A" to this Annual Information Form.

Composition of the Audit Committee

The Audit Committee is comprised of Terry D. Freeman, Randolph Charron, Karen David-Green and Lawrence M. Hibbard. The following chart sets out the assessment of each Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

Name and Place of Residence	Independent	Financially literate	Relevant Education and Experience
Terry D. Freeman Alberta, Canada	Yes	Yes	Mr. Freeman is a Fellow of the Institute of Chartered Professional Accountants of Alberta. He is a Director and Board Chair of McCoy Global, a Director and Audit Committee Chair of Vertex Resources Ltd. and Head of Investments for ATB Private Equity, LP. He is also a member of the Boards of a number of private real estate, construction and energy services businesses. Previously he acted as Managing Director of Northern Plains Capital Corporation from 2007 to 2012 and was the CFO of Flint Energy Services Ltd. and its predecessor from 1992 to 2007 and a Director and Audit Committee Member from 2007 to 2012. Mr. Freeman graduated from the University of Alberta with a Bachelor of Commerce degree and has completed the Directors Education Program offered jointly by the Institute of Corporate Directors and the Rotman School of Management at the University of Toronto. Mr. Freeman has 25 years of experience in energy services companies and has acquired comprehensive financial knowledge through his professional training and experiences.
Randolph Charron Alberta, Canada	Yes	Yes	Mr. Charron has over 35 years of senior management experience in the oil and gas services sector and serving as a director of various public companies within the oil and gas services industry. Mr. Charron is the acting President and Director of Star Valley Drilling Limited, a private Canadian drilling contractor and the President of Characo Corporation, a private oil and gas investment firm and is a Director of Calgary Airport Authority. He was the founding director of Xtreme Drilling Corp. (formerly Xtreme Drilling and Coil Services Corp.) from 2005 to June 2018 and was also Chair of the Compensation Committee during his tenure. Mr. Charron was also a Director of Wrangler West Energy Corp. from 2003 to 2014; prior thereto, Vice President and Founding Director of Artisan Corporation, a publicly traded Canadian oilfield service provider. Mr. Charron has served the industry as a director of the Canadian Association of Oil Well Drilling Contractors (CAODC), as well as other associations. The above experiences and education have allowed Mr. Charron to acquire significant financial and related industry experience.

Name and Place of Residence	Independent	Financially literate	Relevant Education and Experience
Karen David-Green Texas, US	Yes	Yes	Chief Communications, Stakeholder and Sustainability Officer for ExproGroup since 2021, a leading provider of global energy solutions. She has served in senior leadership positions on Wall Street for 15 years and in the corporate sector for 12 years, including serving as Sr. Vice President of Stakeholder Engagement and Chief Marketing Officer of Weatherford International plc from 2018-2020, and prior thereto Vice President, Investor Relations, Corporate Marketing & Communications. She served as President of the Weatherford Foundation, Inc., Chairwoman of the Sustainability Leadership Council, Executive Member of the Disclosure Committee, as well as co-founder of the Diversity Equity & Inclusion Network. Currently serves on the Board of Paragon Integrated Services Group, a private integrated energy and environmental service company based in Houston, Texas and on the Board of several non-profit organizations. Holds a Directorship Certification from the National Association of Corporate Directors. The above experiences and education have allowed Ms. David-Green to acquire significant financial and related industry experience.
Lawrence M. Hibbard Texas, US	Yes	Yes	Independent businessman; Co-Founder and current Director of Highland Fluid Technology, a company deploying unique chemistry and technology to the drilling, fracing and completion business; Past Director of Trigpoint Solutions, Xtreme Drilling and Coil Services Corp. and Zahroof Valve Inc.; prior to 2005, spent a 32 year career with Schlumberger Limited working in four business units, the last 22 years in Senior Vice President level executive management positions primarily related to international operations. Completed Executive program at the University of Michigan School of Business Administration and completed multiple courses at various institutions including the Management Center Europe in Belgium and Columbia University New York. Mr. Hibbard is currently a National Association of Corporate Directors Board Leadership and Governance Fellow. The above experiences and education have allowed Mr. Hibbard to acquire significant financial and related industry experience.

Pre-Approval of Policies and Procedures

PHX Energy has adopted the following policies and procedures with respect to the pre-approval of audit and permitted non-audit services to be provided by KPMG LLP. The audit committee approves a schedule which summarizes the services to be provided that the audit committee believes to be typical, recurring or otherwise likely to be provided by KPMG LLP. The schedule generally covers the period between the adoption of the schedule and the end of the year, but at the option of the audit committee, may cover a shorter or longer period. The list of services is sufficiently detailed as to the particular services to be provided to ensure that (i) the audit committee knows precisely what services it is being asked to pre-approve and (ii) it is not necessary for any member of management to make a judgment as to whether a proposed service fits within the pre-approved services. Services that arise that were not contemplated in the schedule must be pre-approved by the audit committee chair or a delegate of the audit committee. The full audit committee is informed of the services at its next meeting.

PHX Energy has not approved any non-audit services on the basis of the *de minimis* exemptions. All non-audit services are pre-approved by the Audit Committee in accordance with the pre-approval policy referenced herein.

External Auditor Service Fees

The following table sets forth the service fees billed by the Corporation's external auditors for the periods indicated:

Type of Fees	Fiscal Year Ended December 31	Aggregate Fees Billed	Nature of Services Performed
Audit fees	2021	$304,000	Year-end audit and quarterly reviews.
	2020	$274,000	Year-end audit and quarterly reviews.
Audit – Related fees	2021	$49,904	Canadian, US and international tax reviews and tax return preparation
	2020	$48,400	Canadian, US and international tax reviews and tax return preparation.
Tax Fees	2021	$97,497	General tax planning and advice, including transfer pricing
	2020	$160,000	General tax planning and advice, including SRED and transfer pricing
All other fees	2021	Nil	
	2020	Nil	

Defined Terms:

"**Audit Fees**" include fees necessary to perform the annual audit and quarterly reviews of the Corporation's consolidated financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as statutory audits.

"**Audit-Related Fees**" include services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under "Audit Fees" above. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, management information circulars and prospectus offerings, internal control reviews and audit or attest services not required by legislation or regulation.

"**Tax Fees**" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.

"**All Other Fees**" include all other non-audit services.

INDUSTRY CONDITIONS

General Oil and Natural Gas Industry Conditions - Globally

The success of the Corporation's business is connected, in large part, to the general health of the oil and natural gas industry in western Canada, the US, and abroad. Accordingly, in addition to the various federal, provincial, state and municipal regulations to which the Corporation adheres in its ongoing operations, it is also sensitive to the industry conditions relating to the oil and natural gas industry, including the level of oil and natural gas prices and expectations of future prices, land tenure, exploration, development, production, refining, transportation and marketing as a result of legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas through agreements among the governments of Canada and its provinces and the US and its States. All current legislation is a matter of public record and PHX Energy is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and natural gas industry. See "*Risk Factors –*"*Climate Change*", and "*Changing Investor Sentiment*".

Pricing and Marketing of Oil and Natural Gas - Globally

Crude Oil

Producers of crude oil are entitled to negotiate sales contracts directly with purchasers. As a result, macroeconomic and microeconomic market forces determine the price of crude oil. Worldwide supply and demand factors are the primary determinant of crude oil prices; however, regional market and transportation issues also influence prices. The specific price that a producer receives will depend, in part, on crude oil quality, prices of competing products, distance to market, availability of transportation, value of refined products, supply/demand balance and contractual terms of sale.

Global oil markets have recovered significantly from the price drops resulting from the COVID-19 pandemic. In the first quarter of 2022, oil prices have risen to the highest levels since 2014 due to tight supply and a resurgence on demand. The Organization of Petroleum Exporting Countries ("**OPEC**") forecasts robust growth in world oil demand in 2022, despite newly emerging COVID-19 variant(s), expected interest rate increases in major economies and other uncertainties with respect to the world economy.

In February 2022, Russian military forces invaded Ukraine. Ongoing military conflict between Russia and Ukraine has the potential to threaten the supply of oil and gas from the region. In addition, certain countries including Canada and the United States have imposed strict financial and trade sanctions against Russia, which sanctions may have far reaching effects on the global economy in addition to the near term effects on Russia. The long-term impacts of the conflict remain uncertain.

Natural Gas

Negotiations between buyers and sellers determine the price of natural gas sold on an intra and inter province, state, and national trade. The price received by a natural gas producer depends, in part, on the price of competing natural gas supplies and other fuels, natural gas quality, distance to market, availability of transportation, length of contract term, weather conditions, supply/demand balance and other contractual terms of sale.

Natural Gas Liquids ("NGLs")

The pricing of condensates and other NGLs such as ethane, butane and propane sold on an intra and inter province, state, and national trade is determined by negotiation between buyers and sellers. The profitability of NGLs extracted from natural gas is based on the products extracted being of greater economic value as separate commodities than as components of natural gas and therefore commanding higher prices. Such prices depend, in part, on the quality of the

NGLs, price of competing chemical stock, distance to market, access to downstream transportation, length of contract term, supply/demand balance and other contractual terms of sale.

Exports from Canada

The Canada Energy Regulator (the "**CER**") regulates the export of oil, natural gas and NGLs from Canada through the issuance of short-term orders and longer-term licences pursuant to its authority under the Canadian Energy Regulator Act (the "**CERA**"). Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain criteria prescribed by the CER and the federal government.

Exports from the United States

In 2015, the United States Congress voted to end a decades-old prohibition of exports of oil produced in the lower 48 states of the United States. The United States Department of Energy ("**DOE**") regulates the terms and conditions for the exportation and importation of natural gas (including liquefied natural gas or "**LNG**"). United States law provides for very limited regulation of exports to and imports from any country that has entered into a Free Trade Agreement ("**FTA**") with the United States providing for national treatment of trade in natural gas; however, the US DOE's regulation of imports and exports from and to countries without an FTA is more comprehensive. The Federal Energy Regulatory Commission ("**FERC**") also regulates the construction and operation of import and export facilities, including LNG terminals.

Transportation Constraints and Market Access

One major constraint to the export of oil, natural gas and NGLs is the deficit of transportation capacity to transport production from Western Canada to the United States and other international markets. Although certain pipeline and other transportation and export projects are underway, many proposed projects have been cancelled or delayed due to regulatory hurdles, court challenges and economic and other socio-political factors. Due, in part, to growing production and a lack of new and expanded pipeline and rail infrastructure capacity, producers in Western Canada have experienced low commodity pricing relative to other markets over the last several years.

Pipelines

Producers negotiate with pipeline operators to transport their products to market on a firm, spot or interruptible basis depending on the specific pipeline and the specific substance. Transportation availability is highly variable across different jurisdictions and regions. This variability can determine the nature of transportation commitments available, the number of potential customers and the price received.

Under the Canadian Constitution, the development and operation of interprovincial and international pipelines fall within the federal government's jurisdiction and, under the CERA, new interprovincial and international pipelines require a federal regulatory review and Cabinet approval before they can proceed. However, recent years have seen a perceived lack of policy and regulatory certainty in this regard such that, even when projects are approved, they often face delays due to actions taken by provincial and municipal governments and legal opposition related to issues such as Indigenous rights and title, the government's duty to consult and accommodate Indigenous peoples and the sufficiency of all relevant environmental review processes.

In the United States, the interstate transportation and sale for resale of natural gas are subject to federal regulation, including regulation of the terms, conditions and rates for interstate transportation, storage and various other matters, primarily by the FERC. FERC also authorizes the construction and operation of interstate natural gas pipelines. With respect to its review of applications for the construction and operation of interstate natural gas pipeline facilities under the US Natural Gas Act (the "**NGA**"), FERC must comply with environmental review requirements of US National Environmental Policy Act. The intrastate transportation, local distribution and retail sale of natural gas generally are subject to state regulation. FERC's regulations for interstate natural gas transmission in some circumstances may also affect the intrastate transportation of natural gas.

Export pipelines from Canada to the United States face additional unpredictability as such pipelines also require approvals from several levels of government in the United States.

Specific Pipeline Updates

The Enbridge Line 3 Replacement from Hardisty, Alberta to Superior, Wisconsin, came into service in October 2021. The Line 3 Replacement, originally expected to be in-services in late 2019, faced significant permitting difficulties in the United States resulting in the two-year delay. The pipeline provides an incremental 370,000 bbls/day of export capacity from Western Canada into the U.S.

The Trans Mountain Pipeline expansion received Cabinet approval in November 2016. Following a period of political opposition in British Columbia, the federal government acquired the Trans Mountain Pipeline in August 2018. Following the resolution of a number of legal challenges and a second regulatory hearing, construction on the Trans Mountain Pipeline expansion commenced in late 2019. Earlier estimated $12.6 billion, the project budget has risen to $21.4 billion as of February 2022. The pipeline is expected to be in service in the third quarter of 2023, an extension from Trans Mountain's December 2022 estimate. The budget increase and in-service date delay have been attributed to, among other things, the ongoing effects of the COVID-19 pandemic and the widespread flooding in British Columbia in late 2021.

In November 2020, the Attorney General of Michigan filed a lawsuit to terminate an easement that allows the Enbridge Line 5 pipeline system to operate below the Straits of Mackinac, attempting to force the lines comprising this segment of the pipeline system to be shut down by May 2021. Enbridge filed a federal complaint in late November 2020 in the U.S. District Court for the Western District of Michigan and is seeking an injunction to prevent the termination of the easement. Enbridge stated in January 2021 that it intends to defy the shut down order, as the dual pipelines are in full compliance with U.S. federal safety standards. The Government of Canada invoked a 1977 treaty with the United States on October 4, 2021, triggering bilateral negotiations over the pipeline. On December 15, 2021, Enbridge moved to transfer the Attorney General's lawsuit from Michigan State Court to United States Federal Court.

Marine Tankers

The Oil Tanker Moratorium Act, which was enacted in June 2019, imposes a ban on tanker traffic transporting crude oil or persistent crude oil products in excess of 12,500 metric tonnes to and from ports located along British Columbia's north coast. The ban may prevent pipelines being built to, and export terminals being located on, the portion of the British Columbia coast subject to the moratorium.

Natural Gas and LNG

Natural gas prices in Alberta and British Columbia have been constrained in recent years due to increasing North American supply, limited access to markets and limited storage capacity. Companies that secure firm access to infrastructure to transport their natural gas production out of Western Canada may be able to access more markets and obtain better pricing. Companies without firm access may be forced to accept spot pricing in Western Canada for their natural gas, which is generally lower than the prices received in other North American markets.

Required repairs or upgrades to existing pipeline systems in Western Canada have also led to reduced capacity and apportionment of access, the effects of which have been exacerbated by storage limitations. In October 2020, TC Energy received federal approval to expand the NGTL System and the expanded NGTL System is expected to be fully operational by April 2022.

Specific Pipeline and Proposed LNG Export Terminal Updates

While a number of LNG export plants have been proposed in Canada, regulatory and legal uncertainty, social and political opposition and changing market conditions have resulted in the cancellation or delay of many of these projects. Nonetheless, in October 2018, the joint venture partners of the LNG Canada and LNG export terminal announced a positive final investment decision. Once complete, the project will allow producers in northeastern British Columbia to transport natural gas to the LNG Canada liquefaction facility and export terminal in Kitimat, British Columbia via the Coastal GasLink pipeline (the "**CGL Pipeline**"). Pre-construction activities on the LNG Canada facility began in November 2018, with a completion target of 2025.

In May 2020, TC Energy sold a 65% equity interest in the CGL Pipeline to investment companies KKR & Co Inc. and Alberta Investment Management Corporation while remaining the pipeline operator. Despite its approval, the CGL Pipeline has faced legal and social opposition. For example, protests involving the Hereditary Chiefs of the Wet'suwet'en First Nation and their supporters have delayed construction activities on the CGL Pipeline, although construction is proceeding. As of December 2021, construction of the CGL Pipeline is approximately 60% complete.

In addition to LNG Canada and the CGL Pipeline projects, a number of other LNG are underway at varying stages of progress, though none have reached a positive final investment decision.

International Trade Agreements

Canada is party to a number of international trade agreements with other countries around the world that generally provide for, among other things, preferential access to various international markets for certain Canadian export products. Examples of such trade agreements include the Comprehensive Economic and Trade Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and, most prominently, the United States Mexico Canada Agreement (the "**USMCA**"), which replaced the former North American Free Trade Agreement ("**NAFTA**") on July 1, 2020. Because the United States remains Canada's primary trading partner and the largest international market for the export of oil, natural gas and NGLs from Canada, the implementation of the USMCA could impact Western Canada's oil and gas industry at large, including the Corporation's business.

While the proportionality rules in Article 605 of NAFTA previously prevented Canada from implementing policies that limit exports to the United States and Mexico relative to the total supply produced in Canada, the USMCA does not contain the same proportionality requirements. This may allow Canadian producers to develop a more diversified export portfolio than was possible under NAFTA, subject to the construction of infrastructure allowing more Canadian production to reach eastern Canada, Asia and Europe.

Regulatory Authorities and Environmental Regulation

General

The North American oil and gas industry is currently subject to environmental regulation under a variety of Canadian and US federal, provincial, state territorial, and municipal laws and regulations, all of which are subject to governmental review and revision from time-to-time. Such regulations provide for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. The regulatory regimes set out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well, facility and pipeline sites. Compliance with such regulations can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability, and the imposition of material fines and penalties. In addition, future changes to environmental legislation, including legislation related to air pollution and greenhouse gas ("**GHG**") emissions (typically measured in terms of their global warming potential and expressed in terms of carbon dioxide equivalent ("**CO2e**")), may impose further requirements on operators and other companies in the oil and gas industry.

Federal -Canada

Canadian environmental regulation is the responsibility of both the federal and provincial governments. While provincial governments and their delegates are responsible for most environmental regulation, the federal government can regulate environmental matters where they impact matters of federal jurisdiction or when they arise from projects that are subject to federal jurisdiction, such as interprovincial transportation undertakings, including pipelines and railways, and activities carried out on federal lands. Where there is a direct conflict between federal and provincial environmental legislation in relation to the same matter, the federal law prevails.

The CERA and the *Impact Assessment Act* (the "**IAA**") provide a number of important elements to the regulation of federally regulated major projects and their associated environmental assessments. The CERA separates the CER's administrative and adjudicative functions. The CER has jurisdiction over matters such as the environmental and economic regulation of pipelines, transmission infrastructure and certain offshore renewable energy projects. In its adjudicative role, the CERA tasks the CER with reviewing applications for the development, construction and operation of many of these projects, culminating in their eventual abandonment.

The IAA relies on a designated project list as a trigger for a federal assessment. Designated projects that may have effects on matters within federal jurisdiction will generally require an impact assessment administered by Impact Assessment Agency (the "**IA Agency**") or, in the case of certain pipelines, a joint review panel comprised of members from the CER and the IAA. The impact assessment requires consideration of the project's potential adverse effects and the overall societal impact that a project may have, both of which may include a consideration of, among other items, environmental, biophysical and socio-economic factors, climate change, and impacts to Indigenous rights. It also requires an expanded public interest assessment. Designated projects specific to the oil and gas industry include pipelines that require more than 75km of new rights of way and pipelines located in national parks, large scale in situ oil sands projects not regulated by provincial GHG emissions caps and certain refining, processing and storage facilities.

The federal government has stated that an objective of the legislative changes was to improve decision certainty and turnaround times. Once a review or assessment is commenced under either the CERA or IAA, there are limits on the amount of time the relevant regulatory authority will have to issue its report and recommendation. Designated projects will go through a planning phase to determine the scope of the impact assessment, which the federal government has stated should provide more certainty as to the length of the full review process. The Government of Alberta has submitted a reference question to the Alberta Court of Appeal regarding the constitutionality of the IAA, but this matter remains before the courts.

United States

There are extensive and changing federal, state and local laws and regulations establishing environmental quality standards that impact various segments of the oil and gas industry.

Environmental laws and regulations that apply to the Corporation’s operations and those of its customers include, among others, the Clean Air Act, the Clean Water Act, the Oil Pollution Act, and the Endangered Species Act ("**ESA**") (each, as amended). These and similar laws and regulations establish standards and impose obligations and liability related to air emissions, water, the management and disposal of hazardous substances and waste, discharges or releases of oil or hazardous substances into the environment, including damages to natural resources, and the protection of endangered and threatened species and their habitats. Applicable environmental laws and regulations also include similar foreign, state or local counterparts to the above-mentioned federal laws. Environmental laws can have a material adverse effect on the drilling industry, including the Corporation’s operations and reduced demand for its products and services, and compliance with such laws may require PHX Energy to make significant capital expenditures, such as the installation of costly equipment or operational changes, and may affect the resale values or useful lives of drilling equipment and assets. These laws and regulations could carry substantial administrative, civil and criminal penalties and may result in permit revocations or modifications, operational disruptions, or injunctive obligations for noncompliance. They may, for example, limit or prohibit construction or drilling activities on certain lands lying within wilderness, wetlands, ecologically or seismically-sensitive areas and other protected areas. Violations may also result in liabilities for personal injuries, property and natural resource damage and other costs and claims. Changes in environmental, health and safety laws and regulations occur frequently, and any changes in the laws or regulations or the interpretation thereof that result in more stringent and costly requirements could materially adversely affect the Corporation's operations and financial position. The Corporation has not experienced any material adverse effect from compliance with these requirements. This trend, however, may not continue in the future.

The Occupational Safety and Health Act ("**OSHA**") and other similar laws and regulations govern the protection of the health and safety of employees. The OSHA hazard communication standard, the Environmental Protection Agency community right-to-know regulations under Title III of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("**CERCLA**"), the Emergency Planning and Community Right-to-Know Act and similar state statutes and local regulations require that information be maintained about hazardous materials if used in the Corporation's operations and that this information be provided to employees, state and local governments, emergency responders and citizens

Some of the environmental laws and regulations that are applicable to the Corporation's business operations are discussed in the following paragraphs, but the discussion does not cover all environmental, health, and safety laws and regulations that may govern the Corporation's operations.

Water Discharges. The Federal Water Pollution Control Act (the "**Clean Water Act or CWA**"), the Safe Drinking Water Act, the Oil Pollution Act of 1990 and analogous state laws and regulations impose restrictions and strict controls regarding the unauthorized discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United States. The discharge of pollutants into regulated waters, including jurisdictional wetlands, is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. In addition, the Clean Water Act and analogous state laws and regulations require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. Federal and state regulatory agencies can impose administrative, civil and criminal penalties as well as other enforcement mechanisms for unauthorized discharges or other non-compliance. CWA, the Oil Pollution Act of 1990, and analogous state laws and regulations also impose rigorous requirements for spill prevention and response planning, including requiring appropriate containment berms and similar structures to help prevent the contamination of regulated waters. There continues to be uncertainty on the federal government's applicable jurisdictional reach under the CWA over what constitutes a regulated "water of the United States", or WOTUS, including wetlands. The EPA and the US Army Corps of Engineers ("**Corps**") under the Obama, Trump and Biden Administrations have pursued multiple rulemakings since 2015 in an attempt to determine the scope of such reach. While the EPA and Corps under the Trump Administration issued a final rule in January 2021 narrowing federal jurisdictional reach over WOTUS, President Biden issued an executive order to further review and assess these regulations consistent with the new administration's policy objectives, following which the EPA and Corps announced plans in June 2021 to initiate a new rulemaking process that would repeal the 2020 rule and restore protections that were in place prior to 2015. Although the EPA and Corps did not seek to vacate the 2020 rule on an interim basis, two federal district courts in Arizona and New Mexico have vacated the 2020 rule in decisions announced during the third quarter of 2021, and the agencies subsequently announced they would halt implementation of the 2020 rule and revert to pre-2015 WOTUS interpretation. As an initial step in formalizing this policy, the EPA and Corps published a proposed rulemaking on December 7, 2021, that would put back into place the pre-2015 WOTUS definition." The proposed rule, if adopted, would serve as an interim approach and provide the agencies with time to develop a subsequent rule that builds upon the currently proposed rule based, in part, on additional stakeholder involvement. To the extent that any new final rule or rules issued by the EPA and Corps under the Biden Administration expands the scope of the CWA's jurisdiction in areas where the Corporation's customers conduct operations, such developments could delay, restrict or halt the development of projects, result in longer permitting timelines, or increased compliance expenditures or mitigation costs for operations, which may reduce the Corporation's customers' rate of production of oil and gas and reduce the demand for the Corporations products and services.

Air Emissions. The Clean Air Act ("**CAA**") and comparable state laws and regulations regulate emissions of various air pollutants through the issuance of permits and the imposition of other emissions control requirements. The EPA has developed, and continues to develop, stringent regulations governing emissions of air pollutants from specified sources. At this time the Corporation's operations and facilities do not produce the emissions of air pollutants that fall under these regulations. New facilities required by the Corporation's customers to conduct their operations, and possibly in the future the Corporation, may be required to obtain permits before work can begin, and existing facilities may be required to obtain additional permits and incur capital costs to remain in compliance. These and other laws and regulations may increase the costs of compliance for some facilities, and significant administrative, civil, and criminal penalties can be imposed for failure to comply with air regulations. Obtaining or renewing permits has the potential to delay the development of oil and natural gas projects and reduce the demand for the Corporation's products and services.

Hydraulic Fracturing and Related Activities. The Corporation does not engage in any hydraulic fracturing activities. However, it is a common practice in the oil and natural gas industry for the Corporation's customers to recover natural gas and oil from shale and other formations through the use of the horizontal drilling services provided by the Corporation and other service providers combined with hydraulic fracturing. Hydraulic fracturing is the process of creating or expanding cracks, or fractures, in formations using water, sand and other additives pumped under high pressure into the formation to stimulate production of hydrocarbons, particularly natural gas, from tight formations, including shales. The hydraulic fracturing process is typically regulated by state oil and natural gas commissions. However, federal agencies have asserted regulatory authority over certain aspects of the process. For example, in March 2015, the Bureau of Land Management ("**BLM**") issued a final rule that sought to impose requirements on hydraulic fracturing activities on federal and Indian lands, including new requirements relating to public disclosure, wellbore integrity and handling of flowback water. The BLM rescinded this rule in December 2017, but in January 2018, California and a coalition of environmental groups filed suit in the Northern District of California to challenge the BLM's rescission of the 2015 rule. In March 2020, the California district court upheld the BLM's rescission of the hydraulic fracturing rule, and the plaintiff groups appealed. This litigation and administrative review of federal hydraulic fracturing regulations is ongoing. Further, legislation to amend the Safe Drinking Water Act to repeal the exemption for hydraulic fracturing (except when diesel fuels are used) from the definition of "underground injection" and require federal permitting and regulatory control of hydraulic fracturing have been proposed in recent sessions of Congress. Additionally, several states have adopted or are considering adopting regulations that could impose more stringent permitting, public disclosure, waste disposal and/or well construction requirements on oil and gas development, including hydraulic fracturing operations, or otherwise seek to ban fracturing activities altogether. For example, several states and local jurisdictions have adopted or are considering adopting regulations that could require disclosure of the chemical constituents of the fluids used in the fracturing process. In addition to state laws, some local municipalities have adopted or are considering adopting land use restrictions, such as city ordinances, that may restrict or prohibit the performance of well drilling in general and/or hydraulic fracturing in particular. Members of the US Congress are analyzing, and a number of federal agencies have historically been requested to review, and, under the current administration, may be requested to review again, a variety of environmental issues associated with hydraulic fracturing, such as whether the disposal of produced water into underground injection wells has caused increased seismic activity in certain areas. For example, in December 2016, the EPA released its final report regarding the potential impacts of hydraulic fracturing on drinking water resources, concluding that "water cycle" activities associated with hydraulic fracturing may impact drinking water resources under certain circumstances. The results of these studies could lead the federal government and has led some state governments to develop and implement additional regulations, including stricter regulatory requirements relating to the location and operation of underground injection wells or requirements regarding the permitting of produced water disposal wells or otherwise.

Any new laws, regulations or permitting requirements regarding hydraulic fracturing could negatively impact the drilling programs of the Corporation's customers and, consequently, delay, limit or reduce the services it provides. Widespread regulation significantly restricting or prohibiting hydraulic fracturing or other drilling activity by the Corporation's customers could have a material adverse impact on the Corporation's business, financial condition and results of operations.

Endangered and Threatened Species. Oil and natural gas exploration and production operations can be adversely affected by seasonal or permanent restrictions on drilling activities designed to protect various wildlife, which may limit the ability to operate in protected areas. Permanent restrictions imposed to protect endangered species could prohibit drilling in certain areas or require the implementation of expensive mitigation measures. For example, the ESA restricts activities that may affect endangered or threatened species or their habitats. Similar protections are offered to migratory birds under the *Migratory Bird Treaty Act (*"**MBTA**"*)*. To the extent species that are listed under the ESA or similar state laws, or are protected under the MBTA, live in the areas where PHX Energy and its customers operate, additional material costs may be incurred to conduct operations and construct facilities. Drilling activities may be delayed, restricted or precluded in protected habitat areas or during certain seasons, such as breeding and nesting seasons.

Moreover, the US Fish and Wildlife Service ("**FWS**") determines the listing of species as endangered or threatened under the ESA. The listing or non-listing of certain species as endangered or threatened may result in increased protections for non-protected or lesser-protected species. The designation of previously unidentified endangered or threatened species or the re-designation of under protected species could indirectly cause E&P customers' operations to become subject to operating restrictions or bans, and limit future development activity in affected areas. The FWS and similar state agencies may designate critical or suitable habitat areas that they believe are necessary for the survival of threatened or endangered species. Such a designation could materially restrict use of or access to federal, state and private lands.

Climate Change Regulation

Climate change regulation at each of the international, federal, provincial and state levels has the potential to significantly affect the future of the oil and gas industry in Canada and the US. These impacts are uncertain and it is not possible to predict what future policies, laws and regulations will entail. Any new laws and regulations (or additional requirements to existing laws and regulations) could have a material impact on the Corporation's operations and cash flow.

Federal - Canada

Canada has been a signatory to the United Nations Framework Convention on Climate Change (the "**UNFCCC**") since 1992. Since its inception, the UNFCCC has instigated numerous policy changes with respect to climate governance. On April 22, 2016, 197 countries, including Canada, signed the Paris Agreement, committing to prevent global temperatures from rising more than 2° Celsius above pre-industrial levels and to pursue efforts to limit this rise to no more than 1.5° Celsius. To date, 189 of the 197 parties to the UNFCCC have ratified the Paris Agreement, including Canada. In 2016, Canada committed to reducing its emissions by 30% below 2005 levels by 2030. In 2021, Canada updated its original commitment by pledging to reduce emissions by 40-45% below 2005 levels by 2030, and to net-zero by 2050.

During the course of the 2021 United Nations Climate Change Conference in Glasgow, Scotland, Canada's Prime Minister Justin Trudeau made several pledges aimed at reducing Canada's GHG emissions and environmental impact, including: (i) reducing methane emissions in the oil and gas sector to 75% of 2012 levels by 2030; (ii) ceasing export of thermal coal by 2030; (iii) imposing a cap on emissions from the oil and gas sector; (iv) halting direct public funding to the global fossil fuel sector by the end of 2022; and (v) committing that all new vehicles sold in the country will be zero-emission on or before 2040.

The Government of Canada released the Pan-Canadian Framework on Clean Growth and Climate Change in 2016, setting out a plan to meet the federal government's 2030 emissions reduction targets. On June 21, 2018, the federal government enacted the *Greenhouse Gas Pollution Pricing Act* (the "**GGPPA**"), which came into force on January 1, 2019. This regime has two parts: an output-based pricing system ("**OBPS**") for large industry (enabled by the *Output-Based Pricing System Regulations*) and a fuel charge (enabled by the *Fuel Charge Regulations*), both of which impose a price on CO_2e emissions. This system applies in provinces and territories that request it and in those that do not have their own equivalent emissions pricing systems in place that meet the federal standards and ensure that there is a uniform price on emissions across the country. Originally under the federal plans, the price was set to escalate by $10 per year until it reaches a maximum price of $50/tonne of CO2e in 2022; however, on December 11, 2020, the federal government announced its intention to continue the annual price increases beyond 2022, such that, commencing in 2023, the benchmark price per tonne of CO2e will increase by $15 per year until it reaches $170/tonne of CO2e in 2030. Starting April 1, 2022, the minimum price permissible under the GGPPA is $50/tonne of CO2e. In addition, on March 5, 2021, the federal government introduced for comment the *Greenhouse Gas Offset Credit System Regulations (Canada)* (the "**Federal Offset Credit Regulations**"). The proposed Federal Offset Credit Regulations are intended to establish a regulatory framework to allow certain kinds of projects to generate and sell offset credits for use in the federal OBPS. The final Federal Offset Credit Regulations are currently targeted for publication in mid-2022.

While several provinces challenged the constitutionality of the GGPPA following its enactment, the Supreme Court of Canada confirmed its constitutional validity in a judgment released on March 25, 2021.

On April 26, 2018, the federal government passed the *Regulations Respecting Reduction in the Release of Methane and Certain Volatile Organic Compounds (Upstream Oil and Gas Sector)* (the "**Federal Methane Regulations**"). The Federal Methane Regulations seek to reduce emissions of methane from the oil and natural gas sector, and came into force on January 1, 2020. By introducing a number of new control measures, the Federal Methane Regulations aim to reduce unintentional leaks and the intentional venting of methane and ensure that oil and natural gas operations use low-emission equipment and processes. Among other things, the Federal Methane Regulations limit how much methane upstream oil and natural gas facilities are permitted to vent. The federal government anticipates that these actions will reduce annual GHG emissions by about 20 megatonnes by 2030.

The federal government has enacted the *Multi-Sector Air Pollutants Regulation* under the authority of the *Canadian Environmental Protection Act, 1999*, which regulates certain industrial facilities and equipment types, including boilers and heaters used in the upstream oil and gas industry, to limit the emission of air pollutants such as nitrogen oxides and sulphur dioxide.

As part of its efforts to provide relief to Canada's oil and gas industry in light of the COVID-19 pandemic, the federal government announced the $750 million Emissions Reduction Fund ("**ERF**") intended to help the oil and gas sectors to reduce the production of methane and other GHG emissions. Funds disbursed through the ERF will primarily take the form of repayable contributions to onshore and offshore oil and gas firms. Of the $750 million in funding, $675 million was allocated to the Onshore Deployment Program, while $75 million was dedicated to the Offshore Deployment Program and the Offshore RD&D (research, development and demonstration) Program. Natural Resources Canada expects that all funding for onshore projects will be allocated by March 2022, while funding for offshore projects will be allocated by March 2023.

The federal government has also announced that it will implement a Clean Fuel Standard that will require producers, importers and distributors to reduce the emissions intensity of liquid fuels. It is expected that the applicable regulations will come into force in December 2022.

In the November 23, 2021 Speech from the Throne, the federal government restated its commitment to achieve net-zero emission by 2050. In pursuit of this objective, the government's proposed actions include: (i) moving to cap and cut oil and gas sector emissions; (ii) investing in public transit and mandating the sale of zero-emission vehicles; (iii) increasing the federally imposed price on pollution; (iv) investing in the production of cleaner steel, aluminum, building products, cars, and planes; (v) addressing the loss of biodiversity by continuing to strengthen partnerships with First Nations, Inuit, and Métis, to protect nature and the traditional knowledge of those groups; (vi) creating a Canada Water Agency to safeguard water as a natural resource and support Canadian farmers; (vii) strengthening action to prevent and prepare for floods, wildfires, droughts, coastline erosion, and other extreme weather worsened by climate change; and (viii) helping build back communities impacted by extreme weather events through the development of Canada's first-ever National Adaptation Strategy.

The *Canadian Net-Zero Emissions* Accountability Act (the "**CNEAA**") received royal assent on June 29, 2021, and came into force on the same day. The CNEAA binds the Government of Canada to a process intended to help Canada achieve net-zero emissions by 2050. It establishes rolling five-year emissions-reduction targets and requires the government to develop plans to reach each target and support these efforts by creating a Net-Zero Advisory Body. The CNEAA also requires the federal government to publish annual reports that describe how departments and crown corporations are considering the financial risks and opportunities of climate change in their decision-making. A comprehensive review of the Act is required every five years from the date the Act came into force. The Government of Canada is also in the midst of developing a carbon capture utilization and storage ("**CCUS**") strategy. CCUS is a technology that captures carbon dioxide from facilities, including industrial or power applications, or directly from the atmosphere. The captured carbon dioxide is then compressed and transported for permanent storage in underground geological formations or used to make new products such as concrete. The federal government has indicated that urgent steps are necessary to ramp up CCUS in Canada, as this will be a critical element of the plan to reach net-zero by 2050.

Additionally, there are various provincial legislation that also address emission and climate change that are being proposed and enacted that could have an impact on the oil and gas industry's activities in those provinces.

United States

The EPA has determined that GHG**s** present an endangerment to public health and the environment because such gases contribute to warming of the Earth's atmosphere and other climatic changes. Based on these findings, the EPA has adopted and implemented, and continues to adopt and implement, regulations that restrict emissions of GHGs under existing provisions of the CAA. For example, the EPA requires the annual reporting of GHG emissions from certain large sources of GHG emissions in the United States, including certain oil and gas production facilities. On November 15, 2021, the EPA published in the Federal Register a proposed rule that would for the first time regulate emissions of methane (a GHG) and volatile organic compounds ("**VOCs**") from existing oil and gas facilities. The proposed rule would also update, strengthen and expand existing rules applicable to new, reconstructed and modified oil and gas facilities. The agency did not provide proposed regulatory text in the proposed rule, but instead sought public comments for a supplemental proposal the agency expects to issue in 2022 that may expand on or modify the 2021 proposed rule, including potentially regulating additional sources of methane and VOC emissions, such as abandoned and unplugged wells. However, a case currently being considered by the Supreme Court could interpret and impact EPA's authority to regulate GHG's. On February 28, 2022, the US Supreme Court heard oral arguments in four consolidated cases, collectively referred to as *West Virginia v. EPA*. These cases involve power plant-related rules and the justices could limit their opinion to these rules, but they could also more broadly rule on the extent of EPA's authority to regulate carbon emissions (a GHG) and how expansively EPA can interpret its authority under the Clean Air Act to regulate climate change.

Additionally, the US Congress has from time to time considered adopting legislation to reduce emissions of GHGs and almost one-half of the states have already taken legal measures to reduce emissions of GHGs primarily through the development of GHG emission inventories and/or regional GHG cap and trade programs and through the establishment of emissions reduction targets. Further, the current administration has identified climate change as a priority, and additional regulatory initiatives appear likely. For instance, on January 20, 2021, the Biden administration issued an order implementing a 60-day suspension on new oil and gas leases and drilling permits for federal lands and water. On January 27, 2021, the Biden administration issued an executive order to indefinitely pause new oil and gas leases on federal lands while the administration undertakes a comprehensive review on climate change impacts. In June 2021, a federal judge issued a preliminary injunction to block the leasing pause. The Biden administration resumed approving oil and gas drilling permits on federal lands, but is appealing the ruling. In December 2015, the United States joined the international community at the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris, France. The resulting Paris Agreement calls for the parties to undertake "ambitious efforts" to limit the average global temperature, and to conserve and enhance sinks and reservoirs of GHGs. The Paris Agreement entered into force in November 2016. The United States exited the Paris Agreement in November 2020, but rejoined it effective on February 19, 2021.

It is not possible at this time to predict the timing and effect of climate change or whether additional GHG legislation, regulations or other measures will be adopted at the federal, state or local levels. However, more aggressive efforts by governments and non-governmental organizations to reduce GHG emissions appear likely and any such future laws and regulations could result in increased compliance costs, additional operating restrictions or affect the demand for the Corporation's services. If the Corporation is unable to recover or pass through a significant level of its costs related to complying with climate change regulatory requirements imposed on the Corporation, it could have a material adverse impact on its business, financial condition and results of operations. Further, to the extent financial markets view climate change and GHG emissions as a financial risk, this could negatively impact the Corporation's cost of or access to capital. Climate change and GHG regulation could also negatively impact the drilling programs of the Corporation's customers and, consequently, delay, limit or reduce the demand for the services the Corporation provides. An increased focus by the public on the reduction of GHG emissions as well as the results of the physical impacts of climate change could affect the demand for the Corporation's customers' products and have a negative effect on the Corporation's business. Moreover, climate change may cause more extreme weather conditions and increased volatility in seasonal temperatures. Extreme weather conditions can interfere with the Corporation's operations and increase costs, and damage resulting from extreme weather may not be fully insured.

OSHA Matters. OSHA and comparable state statutes regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities, and the public.

Indigenous Rights

Constitutionally mandated government-led consultation with and, if applicable, accommodation of, the rights of Indigenous groups impacted by regulated industrial activity, as well as proponent-led consultation and accommodation or benefit sharing initiatives, play an increasingly important role in the Western Canadian oil and gas industry, particularly to the operations and businesses of the Corporation's customers. In addition, Canada is a signatory to the *United Nations Declaration of the Rights of Indigenous Peoples* ("**UNDRIP**") and the principles set forth therein may continue to influence the role of Indigenous engagement in the development of the oil and gas industry in Western Canada. Continued development of common law precedent regarding existing laws relating to Indigenous consultation and accommodation as well as the adoption of new laws such as *Declaration on the Rights of Indigenous Peoples Act* and UNDRIP Act are expected to continue to add uncertainty to the ability of entities operating in the Canadian oil and gas industry, including the Corporation's clients, to execute on major resource development and infrastructure projects, including, among other projects, pipelines. The Government of Canada has expressed that implementation of the UNDRIP Act has the potential to make meaningful change in how Indigenous peoples collaborate in impact assessment moving forward, but has confirmed that the current IAA already establishes a framework that aligns with UNDRIP and does not need to be changed in light of the UNDRIP Act.

RISK FACTORS

The following is a summary only of certain risk factors relating to the activities of the Corporation and its subsidiaries and the ownership of Common Shares. A prospective investor should carefully consider all such risk factors contained herein and in the Corporation's other public filings before making an investment decision. The risks set out below are not an exhaustive list, and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oilfield services business generally.

Public Health Crisis

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 nonessential. 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 of production at certain producing properties.

While the duration and full impact of the COVID-19 pandemic is not yet known, effects of COVID-19 may also include disruptions to production operations, 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.

Demand for Services - Globally

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

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

Political Uncertainty

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, 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.

Russian Ukrainian Conflict

In February 2022, Russian military forces invaded Ukraine. In response, Ukrainian military personnel and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("**NATO**") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide-ranging consequences on the peace and stability of the region and the world economy. In addition, certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia, which sanctions may have far reaching effects on the global economy. As part of the sanctions package, the German government paused the certification process for the 1,200 km Nord Stream 2 natural gas pipeline that was built to carry natural gas from Russia to Germany. Russia is a major exporter of oil and natural gas. Disruption of supplies of oil and natural gas from Russia could cause a significant worldwide supply shortage of oil and natural gas and have a significant impact on worldwide prices of oil and natural gas. A lack of supply and high prices of oil and natural gas could have a significant adverse impact on the world economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

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 Canada's GHG emissions and environmental impact. As discussed in “Transition Risks”, the Corporation faces both transition risks and physical risks associated with climate change and climate change policy and regulations. The adoption of legislation or regulatory programs to reduce emissions of GHGs could require the Corporation to incur additional operating costs, such as costs to purchase and operate emissions control systems, to acquire emissions allowances or to comply with new regulatory or reporting requirements. Any such legislation or regulatory programs could also increase the cost of consuming, and thereby reduce demand for, oil and natural gas. Consequently, legislation and regulatory programs to reduce emissions of GHGs could have an adverse effect on the Corporation’s business, financial condition, and results of operations. Furthermore, increasing attention to the risks of climate change has resulted in an increased possibility of lawsuits or investigations brought by public and private entities against oil and natural gas companies in connection with their GHG emissions. Should the Corporation be targeted by any such litigation or investigations, it may incur liability, which, to the extent that societal pressures or political or other factors are involved, could be imposed without regard to the causation of, or contribution to, the asserted damage, or to other mitigating factors. The ultimate impact of GHGs emissions-related agreements, legislation and measures on the Corporation's financial performance is highly uncertain because the Corporation is unable to predict with certainty, for a multitude of individual jurisdictions, the outcome of political decision-making processes and the variables and tradeoffs that inevitably occur in connection with such processes. For more information, please see "*Industry Conditions – Regulatory Authorities and Environmental Regulation*."

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, obtain regulatory permits, licences, registrations, approvals, and authorizations from various governmental authorities, 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.

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 may be exposed to third party credit risk through its contractual arrangements with its customers and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse affect on the Corporation's business, financial condition, results of operations and prospects. While the Corporation has a credit management program to assist in managing the risk in collecting its receivables, collection of such receivables may be impacted by unfavourable industry conditions including fluctuations in the level of commodity prices. To the extent that any of the Corporation's customers go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or a portion of any money owing from such customers. Any of these factors could have a material adverse affect on the Corporation's business, financial condition, results of operations, receivables and cash flow.

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.

Changing Investor Sentiment

A number of factors, including the effects of the use of hydrocarbons on climate change, the impact of oil and natural gas operations on the environment, environmental damage relating to spills of petroleum products during production and transportation, Indigenous rights and gender balance, have affected certain investors' sentiments towards investing in the oil and natural gas industry and certain corporations generally. As a result of these concerns, some institutional, retail and governmental investors have announced that they no longer are willing to fund or invest in oil and natural gas properties or companies, or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, management and employees of the Corporation. Although the Corporation in recent years has implemented the policies and practices that it believes meet the requests by institutional investors, there is no assurance that in fact the Corporation’s efforts will continue to meet evolving expectation and this may result in such investors reducing their investment in the Corporation, or not investing in the Corporation at all. Any reduction in the investor base interested or willing to invest in the oil and natural gas industry and more specifically, the Corporation, may 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.

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.

Access to Quality Equipment and Development of New Technology

The ability of PHX Energy to compete and expand is dependent upon PHX Energy having access at a reasonable cost to drilling equipment and supplies which are at least technically equivalent to those offered by competitors and to develop or acquire new and competitive technology. Failure by the Corporation to do so could have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows. PHX Energy currently owns its own horizontal and directional drilling equipment and makes additional purchases of certain drilling equipment from time to time from various suppliers in the oil and natural gas drilling service industry, including certain competitors. In addition, PHX Energy purchases materials for the manufacturing of its own technology. There can be no assurance that the sources for such equipment and materials will be maintained. If such equipment is not made available and is not available from any other source, PHX Energy's ability to compete may be impaired. No assurances can be given that competitors will not achieve technological advantages over the Corporation.

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

Potential Replacement or Reduced Use of Products and Services

Certain of the Corporation's equipment or systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. The Corporation will need to keep current with the changing market for oil and natural gas services and technological and regulatory changes. If the Corporation fails to do so, this could have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows and therefore on the level of dividends, if any, which may be declared to Shareholders.

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.

Dependence on Suppliers

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

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.

Competition

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

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in reduced pricing pressure for services, reduced day rates and corresponding lower revenue to the Corporation. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an affect upon the Corporation's ability to generate revenue and earnings.

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, 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.

Reliance on Major Customers

The Corporation has a relatively wide customer base and does not generally depend significantly on any one customer or group of customers. The single largest customer accounted for approximately 27% of PHX Energy's revenues for fiscal 2020. However, in certain geographical operating areas, the Corporation may depend on a smaller number of customers. While PHX Energy believes that its relationship with existing customers is good, the loss of any one or more of these customers, or a significant reduction in business done with PHX Energy by one or more of these customers, if not offset by sales to new or existing customers, could have a material adverse affect on PHX Energy's business, results of operations and prospects. In addition, the loss of customers in certain international jurisdictions may result in significant equipment relocation costs.

Seasonality

In Canada and in certain parts of the US in which the Corporation has operations, the level of activity in the oil and natural gas services industry is influenced by seasonal weather patterns. Spring break-up during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oil and natural gas services. Wet weather and the spring thaw may make the ground unstable. 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. The duration of this period will have a direct impact on the level of the Corporation's activities. Spring break-up occurs earlier in the year in southeastern Alberta than it does in northern Alberta and British Columbia. The timing and duration of spring break-up are dependant on weather patterns, but it generally occurs in April and May. Certain oil and natural gas producing areas are located in areas that are inaccessible other than during winter months, because the ground surrounding the drillings sites in these areas consists of swampy terrain. Additionally, if an unseasonably warm winter prevents sufficient freezing, PHX Energy may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The demand for oil and natural gas services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which can have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on the level of dividends to be declared to Shareholders. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration and production companies and corresponding declines in the demand for the goods and services of the Corporation.

Workforce Availability and Key Personnel

The success of the Corporation is dependent upon its ability to hire and retain a dedicated and quality pool of employees and in large measure is dependent on certain key personnel of PHX Energy. The loss of the services of such key personnel may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The Corporation does not have any key person insurance in effect. Additionally, the ability of PHX Energy to expand its services is dependent upon its ability to attract additional qualified employees. The contributions of the existing management team to the immediate and near-term operations of the Corporation are likely to be of central importance. In addition, the 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. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of PHX Energy. Should circumstances exist that prevent the PHX Energy's employees and consultants from performing their duties, such as natural disasters or impacts from global pandemics like COVID-19, it could impact the Corporation's ability to deliver its products and services. The unexpected loss of the Corporation's key personnel, or the inability to retain or recruit skilled personnel could have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows.

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.

Variations in Foreign Exchange Rates and Interest Rates

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

Foreign Operations

The Corporation regularly assesses its foreign operations risk. Risks of foreign operations include, but are not necessarily limited to, foreign currency exchange rate fluctuations, changes of laws affecting foreign ownership, government participation, taxation, royalties, duties, inflation, repatriation of earnings, social unrest or civil war, corruption, acts of terrorism, extortion or armed conflict and uncertain political and economic conditions resulting in unfavourable government actions such as unfavourable legislation or regulation. At this time, no material risk factors relating to the Corporation's foreign operations have been identified. If any of the further risks materialize, they could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

US Operations

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

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

Government Regulation and Anti-Bribery Laws

The operations of the Corporation in Canada, the US, Russia and Albania are subject to a variety of federal, provincial, state and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, taxation, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Such laws or regulations are subject to change and may have a material impact to the Corporation's operations or costs to comply with changes to such laws or regulations in the future. Accordingly, it is impossible to predict the cost or impact that such laws and regulations may have on the Corporation or its future operations.

The Corporation's obligation to comply with laws and regulations also includes those involving bribery and anti-corruption. The Corporation currently operates in Canada, the US, Russia and Albania and may expand its operations to other international locations in the future. In the course of the Corporation's operations, the Corporation personnel may be required to interact with certain government and foreign officials from time to time. The Corporation has controls, policies, procedures, and training that mandate the compliance with these laws and regulations, however there can be no assurance that employees or consultants will not violate these controls, policies, and procedures. Any alleged violation of these laws and regulations could disrupt the business and cause the Corporation to incur significant costs to investigate any alleged breach. If the Corporation was found to be in contravention with these laws and regulations, severe civil and criminal penalties and other sanctions could materially harm their reputation, business, result of operations, financial conditions, and liquidity.

Natural Disasters, Terrorist Acts, Civil Unrest, Pandemics and Other Disruptions and Dislocations

Upon the occurrence of a natural disaster, or upon an incident of war, riot or civil unrest, the impacted country, province, state or region may not efficiently and quickly recover from such event, which could have a materially adverse effect on the Corporation, its customers, and/or either of their businesses or operations. Terrorist attacks, public health crises including epidemics, pandemics or outbreaks of new infectious disease or viruses including, most recently, the COVID-19 outbreak, domestic and global trade disruptions, infrastructure disruptions, civil disobedience or unrest (including the most recent protests and railway blockades in Canada), natural disasters, national emergencies, acts of war, technological attacks and related events can result in volatility and disruption to local and global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Corporation, its customers, and/or either of their businesses or operations, which may have a material adverse effect on the Corporation's reputation, business, financial conditions or operating results.

Unpredictability and Volatility of Common Share Price

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

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

Government and Industry Regulation

The operations of the Corporation and its customers are subject to a variety of federal, provincial, state and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. See "*Industry Conditions - Regulatory Authorities and Environmental Regulation* ". The Corporation believes that each of its subsidiaries and operating entities are currently in compliance with such laws and regulations. However, such laws or regulations are subject to change, and accordingly, it is impossible for the Corporation to predict the cost or impact of such laws and regulations on the Corporation's future operations.

Environmental Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial, state and local laws and regulations. Environmental legislation provides for, among other things, the initiation and approval of new oil and natural gas projects, restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations, and required notification and corrective action measures for incidents. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. New environmental legislation at the federal and provincial levels may increase uncertainty among oil and natural gas industry participants as the new laws are implemented, and the effects of the new rules and standards are felt in the oil and natural gas industry. See "*Industry Conditions – Exports from Canada", "Industry Conditions – Regulatory Authorities and Environmental Regulation" and "Industry Conditions – Climate Change Regulation*".

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

Cash Flow Risk

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

Availability of Current Credit Facilities

The amount available under the Corporation's credit facilities are subject to periodic review by the Corporation's lenders, with the next scheduled review to occur in mid-2022. There is no assurance that the amount available to the Corporation under its credit facilities may not be reduced and, if the amount available is reduced to below the amount outstanding thereunder, the excess amount will be required to be repaid. In such event, the Corporation will have to repay such amount from other sources, including cash flow, equity issuances or other financing alternatives, which may or may not be available or, if available, may not be available on acceptable terms. The Corporation's ability to access its credit facilities is also directly dependent, among other factors, on satisfaction of certain financial ratios and other restrictive covenants. A breach of these covenants, which may be affected by events beyond the Corporation's control, could constitute an event of default which, if not cured or waived, could result in the amounts outstanding under the credit facilities to become due and payable immediately. There is no certainty that the Corporation would be in a position to make such repayment. Even if the Corporation is able to obtain new financing in order to make any required repayment under its credit facilities, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under its credit facilities, the lenders could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness.

Access to Additional Financing

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

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

Issuance of Debt

From time to time the Corporation may enter into transactions to acquire assets or the shares of other entities. These transactions may be financed in whole or in part with debt, which may increase the Corporation's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future operations, the Corporation may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time, could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Dilution

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

Income Taxes

The Corporation files all required income tax returns and believes that it is in full compliance with the provisions of the Federal, Provincial, and State tax legislation in the jurisdiction it operates. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, such reassessment may have an impact on current and future taxes payable. Income tax laws relating to the oil and natural gas industry, such as the treatment of dividends, may in the future be changed or interpreted in a manner that adversely affects the Corporation. Furthermore, tax authorities having jurisdiction over the Corporation may disagree with how the Corporation calculates its income for tax purposes or could change administrative practices to the Corporation's detriment.

Litigation

In the normal course of the Corporation's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. Potential litigation may develop in relation to personal injuries, property damage and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation, and could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from business operations, which could have an adverse affect on the Corporation's financial condition. While the Corporation, having received legal advice, anticipates that a favourable outcome is probable in connection with the litigation described under "*Legal Proceedings*", a judgment in PHX Energy's favour for the amount claimed or any other amount, or at all, cannot be guaranteed. Further, there is no certainty that any amount awarded can be collected from the Defendants.

Intellectual Property Litigation

Due to the rapid development of oil and natural gas and drilling technology, in the normal course of the Corporation's operations, the Corporation may become involved in, named as a party to, or be the subject of, various legal proceedings in which it is alleged that the Corporation has infringed the intellectual property rights of others or commenced lawsuits against others who the Corporation believes are infringing upon its intellectual property rights. The Corporation's involvement in intellectual property litigation could result in significant expense, adversely affecting the development of its assets or intellectual property or diverting the efforts of its technical and management personnel, whether or not such litigation is resolved in the Corporation's favour. In the event of an adverse outcome as a defendant in any such litigation, the Corporation may, among other things, be required to: (a) pay substantial damages; cease the development, use, sale or importation of processes that infringe upon other patented intellectual property; (b) expend significant resources to develop or acquire non-infringing intellectual property; (c) discontinue processes incorporating infringing technology; or (d) obtain licences to the infringing intellectual property. However, the Corporation may not be successful in such development or acquisition or such licences may not be available on reasonable terms. Any such development, acquisition or licence could require the expenditure of substantial time and other resources and could have a material adverse effect on the Corporation's business and financial results.

Breach of Confidentiality

In the normal course of the Corporation's business, the Corporation may discuss potential business relationships, transactions with third parties, financing solutions or other activities and at which time the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. The Corporation takes commercially reasonable measures to ensure confidentiality agreements are signed by third parties prior to the disclosure of any confidential information or to otherwise ensure the confidentiality of such information is maintained; however, a breach or failure of these measures could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation 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.

Anti-Indemnity Contract Provisions

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

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.

Conflicts of Interest

Certain directors of the Corporation are also directors of other oil and natural gas service companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the ABCA. See "*Directors and Officers – Conflicts of Interest*".

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. See "*Dividends*".

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumption and uncertainties are found under the heading "*Special Note Regarding Forward-Looking Statements*" of this Annual Information Form.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

On January 31, 2018, subsidiaries of PHX Energy, Phoenix Technology Services Inc., Phoenix Technology Services LP and Phoenix Technology Services USA Inc., filed a Statement of Claim in the Court of Queen's Bench of Alberta (Action No. 1801-01562) against Applied Physics Systems Inc. (Alberta) and Applied Physics Systems Inc. (Delaware) for damages arising from breach of contract, negligence and negligent misrepresentation in such amounts as may be proven at trial. The Statement of Claim was served on the defendants effective January 3, 2019. Jurisdiction has not been contested, Statements of Defence were filed on April 15, 2019, and Affidavits of Records have been served. Examinations for discovery commenced in January of 2022 and are ongoing.

Other than as stated above, there are no other legal proceedings to which the Corporation, or any of its subsidiaries are a party to or were a party to, or to which any of the Corporation's property or that of its subsidiaries is or was the subject of, during the most recently completed financial year, nor are any such proceedings known to be contemplated, which involve a claim for damages exclusive of interest and costs that may exceed 10% of the current assets of the Corporation and its subsidiaries.

Regulatory Actions

During the year ended December 31, 2021, there were no (i) penalties or sanctions imposed against the Corporation or its predecessor, or by a court relating to securities legislation or by a securities regulatory authority; (ii) other penalties or sanctions imposed by a court or regulatory body against the Corporation or its predecessor that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Corporation or its predecessor entered into before a court relating to a securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of any director or executive officer of PHX Energy, any securityholder who beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Corporation's outstanding Common Shares, or any associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation or any of its subsidiaries.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Odyssey Trust Company at its principal office in Calgary, Alberta.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, neither the Corporation, its predecessor or their subsidiaries have entered into any material contracts within the most recently completed financial year, or before the most recently completed financial year which are still in effect, other than the Credit Agreement, as amended, providing for the Corporation's credit facilities comprised of a CAD$50 million extendable revolving term facility, a CAD$15 million operating term facility and a USD$15 million operating term facility. The material terms of the Credit Agreement are described in the Corporation’s financial statements and MD&A and a complete copy of the Credit Agreement and amendments thereto are filed of SEDAR at www.sedar.com.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or relating to, the Corporation's most recently completed financial year, other than the Corporation's auditors, KPMG LLP. KPMG LLP, Chartered Professional Accountants, are independent within the meaning of the rules of professional conduct of the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies is, or is expected to be elected, appointed or employed as a director, officer or employee of PHX Energy or of any associate or affiliate of the Corporation.

ADDITIONAL INFORMATION

Additional information, including information relating to directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under the Corporation's equity compensation plans, if applicable, will be contained in the Corporation's Information Circular for the annual meeting of Shareholders to be on May 7, 2021. Additional financial information is provided in the Corporation's financial statements and management's discussion and analysis for the year ended December 31, 2020. Documents affecting the rights of Shareholders, along with other information relating to the Corporation and its subsidiaries, may be found on SEDAR at www.sedar.com.

For copies of the Corporation's information circular, e Corporation's comparative consolidated financial statements, including any interim consolidated comparative financial statements and additional copies of the Annual Information Form please contact:

PHX Energy Services Corp.
Suite 1400, 250 – 2nd Street S.W.
Calgary, Alberta T2P 0C1
Telephone: (403) 543-4466
Facsimile: (403) 543-4485

Attention: Cameron Ritchie
Senior Vice President, Finance and Chief Financial Officer and Corporate Secretary

SCHEDULE "A"

PHX ENERGY SERVICES CORP.

AUDIT COMMITTEE MANDATE AND TERMS OF REFERENCE

Role and Objective

The Audit Committee (the "**Committee**") is a committee of the board of directors (the "**Board**") of PHX Energy Services Corp. ("**PHX Energy**") to which the Board has delegated its responsibility for the oversight of the following respecting PHX Energy:

1. nature and scope of the annual audit;
2. the oversight of management's reporting on internal accounting standards and practices;
3. the review of financial information, accounting systems and procedures;
4. financial reporting and financial statements,

and has charged the Committee with the responsibility of recommending, for approval of the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The primary objectives of the Committee are as follows:

1. To assist directors of PHX Energy ("**Directors**") in meeting his or her responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of PHX Energy and related matters;
2. To facilitate communication between Directors and external auditors;
3. To enhance the external auditor's independence;
4. To increase the credibility and objectivity of financial reports; and
5. To strengthen the role of the outside Directors by facilitating in depth discussions between Directors on the Committee, management of PHX Energy ("**Management**") and external auditors.

Membership of Committee

1. The Committee will be comprised of at least three (3) Directors or such greater number as the Board may determine from time to time and all members of the Committee shall be "independent" (as such term is used in National Instrument 52-110 - Audit Committees ("**NI 52-110**") unless the Board determines that the exemption contained in NI 52-110 is available and determines to rely thereon.
2. The Board may from time to time designate one of the members of the Committee to be the Chair of the Committee.
3. All of the members of the Committee must be "financially literate" (as defined in NI 52-110) unless the Board determines that an exemption under NI 52-110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of NI 52-110.

<u>Mandate and Responsibilities of Committee</u>

It is the responsibility of the Committee to:

1. Oversee the work of the external auditors, including the resolution of any disagreements between Management and the external auditors regarding financial reporting.

2. Satisfy itself on behalf of the Board with respect to PHX Energy's internal control systems.

3. Review the annual and interim financial statements of PHX Energy and related management's discussion and analysis ("**MD&A**") prior to their submission to the Board for approval. The process should include but not be limited to:

    - reviewing changes in accounting principles and policies, or in their application, which may have a material impact on the current or future years' financial statements;

    - reviewing significant accruals or other estimates or impairment calculations;

    - reviewing accounting treatment of unusual or non-recurring transactions;

    - ascertaining compliance with covenants under loan agreements;

    - reviewing disclosure requirements for commitments and contingencies;

    - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;

    - reviewing unresolved differences between Management and the external auditors; and

    - obtain explanations of significant variances with comparative reporting periods.

4. Review the financial statements, prospectuses, MD&A, annual information forms ("**AIF**") and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval. The Committee must be satisfied that adequate procedures are in place for the review of PHX Energy's disclosure of all other financial information and will periodically assess the accuracy of those procedures.

5. With respect to the appointment of external auditors by the Board:

    - recommend to the Board the external auditors to be nominated;

    - recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors will report directly to the Committee;

    - on an annual basis, review and discuss with the external auditors all significant relationships such auditors have with PHX Energy to determine the auditors' independence;

    - when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and

- review and pre-approve any non-audit services to be provided to PHX Energy or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Committee may delegate to one or more independent members the authority to pre–approve non–audit services, provided that the member(s) report to the Committee at the next scheduled meeting such pre–approval and the member(s) comply with such other procedures as may be established by the Committee from time to time.

6. Review with external auditors (and internal auditor if one is appointed by PHX Energy) their assessment of the internal controls of PHX Energy, their written reports containing recommendations for improvement, and Management's response and follow-up to any identified weaknesses. The Committee will also review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of PHX Energy and its subsidiaries.

7. Review risk management policies and procedures of PHX Energy (i.e. hedging, litigation and insurance).

8. Establish a procedure for:

   - the receipt, retention and treatment of complaints received by PHX Energy regarding accounting, internal accounting controls or auditing matters; and

   - the confidential, anonymous submission by employees of PHX Energy of concerns regarding questionable accounting or auditing matters.

9. Review and approve PHX Energy's and its subsidiary's hiring policies regarding partners and employees and former partners and employees of the present and former external auditors of PHX Energy.

The Committee has authority to communicate directly with the internal auditors (if any) and the external auditors of PHX Energy. The Committee will also have the authority to investigate any financial activity of PHX Energy. All employees of PHX Energy are to cooperate as requested by the Committee.

The Committee may also retain persons having special expertise and/or obtain independent professional advice to assist in filling their responsibilities at such compensation as established by the Committee and at the expense of PHX Energy without any further approval of the Board.

Meetings and Administrative Matters

1. At all meetings of the Committee every resolution will be decided by a majority of the votes cast. In case of an equality of votes, the Chair of the meeting will be entitled to a second or casting vote.

2. The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.

3. A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.

4. Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee will be taken. The Chief Financial Officer of PHX Energy will attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman.

5. The Committee will meet with the external auditor at least once per year (in connection with the preparation of the year-end financial statements) and at such other times as the external auditor and the Committee consider appropriate.

6. Agendas, approved by the Chair, will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.

7. The Committee may invite such officers, directors and employees of PHX Energy and its subsidiaries as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.

8. Minutes of the Committee will be recorded and maintained and circulated to Directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.

9. If determined appropriate, following meetings of the Audit Committee, a list of tasks or matters to be followed up upon shall be prepared including the time table for completion thereof and the responsibility for completion, the status of which matter shall be reviewed at the next meeting of the Audit Committee or as otherwise determined by the Committee.

10. Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a Director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee each member will hold such office until the Committee is reconstituted.

11. Any issues arising from these meetings that bear on the relationship between the Board and Management should be communicated to the Chair of the Board and, if applicable, the Lead Director, by the Committee Chair.