PHX ENERGY SERVICES CORP.

Press Release
February 23, 2022
TSX – PHX
Calgary, Alberta

PHX Energy Announces Strong Fourth Quarter and Year End Results and Increase to its Quarterly Dividend

Fourth Quarter Highlights

- *PHX Energy generated adjusted EBITDA[(1)] of $17.9 million and adjusted EBITDA excluding the impact of share-based compensation[(1)] of $20.9 million.*
- *Positive net earnings of $8.7 million were recorded.*
- *Revenue grew 85 percent quarter-over-quarter to $105.4 million.*
- *In light of the Corporation's balance sheet strength and improving adjusted EBITDA, the Board has approved another increase to the quarterly dividend to $0.075 per common share from the previous $0.05 per common share effective for the dividend payable on April 18, 2022; an increase of 50 percent.*

Year End Highlights

- *The Corporation achieved its highest annual adjusted EBITDA[(1)] since 2014, generating adjusted EBITDA[(1)] of $60.4 million and adjusted EBITDA excluding the impact of share-based compensation[(1)] of $73.7 million.*
- *Net earnings of $22.7 million were recorded in the 2021-year which was also the highest level since 2014.*
- *Consolidated annual revenue increased by 42 percent to $350 million.*
- *In 2021, the Corporation spent $35.3 million in capital expenditures which were primarily directed towards Atlas motors, Velocity systems, and PowerDrive Orbit RSS.*
- *PHX Energy currently anticipates spending $47.7 million in capital expenditures during 2022, of which $15.5 million is expected to be allocated to maintenance of existing drilling and other equipment and $32.2 million allocated to growth capital.*
- *The Corporation maintained strength in its financial position and reported a cash balance of $24.8 million with no bank loans outstanding.*
- *We published our first ESG and Sustainability Report in March of 2021 with our second report to be released in upcoming weeks.*

Shareholder Value Highlights

- *We intend to protect and preserve our balance sheet strength to ensure we execute on growth strategies and reward shareholders.*
- *We plan to commit capital expenditures to expand our high performance technologies and leverage our strong operational performance to capture market share.*
- *We have increased our dividend for a second time since we reinstated it just over a year ago and we believe we are an outlier in our sector.*
- *We will continue to leverage our NCIB to buy back shares and bolster our market position. Since 2017 we have re-purchased and cancelled 17 percent of our shares outstanding.*

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

Outlook

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

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

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

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

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

Michael Buker, President
February 23, 2022

Financial Results

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

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

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

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

---

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

Dividends

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

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

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

Capital Spending

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

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

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

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

Responding to COVID-19

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

PHX Energy has and will continue to preserve a solid financial position and retain financial flexibility through substantial liquidity on its credit facilities. As at December 31, 2021, the Corporation has working capital[(1)] of $55.1 million and approximately CAD $65 million and USD $15 million available from its credit facilities. Additional information regarding the risks, uncertainties and impact on the Corporation's business can be found throughout this Press Release, including under the headings "Capital Spending", "Operating Costs and Expenses", and "Outlook".

Re-presentation of Assets Held for Sale

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

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

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

---

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

Technology Arrangement

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

Shares Held in Trust

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

Investments

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

Normal Course Issuer Bid

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

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

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

---

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

Financial Highlights

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

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

n.m. – not meaningful

Non-GAAP Measures

Throughout this Press Release, PHX Energy uses certain measures to analyze operational and financial performance that do not have standardized meanings prescribed under Canadian generally accepted accounting principles ("GAAP"). These non-GAAP measures include adjusted EBITDA, adjusted EBITDA excluding share-based compensation, adjusted EBITDA per share, adjusted EBITDA excluding share-based compensation as a percent of revenue, gross profit as a percentage of revenue, gross profit as a percentage of revenue excluding depreciation and amortization, selling, general and administrative ("SG&A") costs excluding share-based compensation as a percentage of revenue, funds from operations, funds from operations per share, free cash flow, net debt, and working capital. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Corporation's operations and are commonly used by

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

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

other oil and natural gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of PHX Energy's performance. The Corporation's method of calculating these measures may differ from that of other organizations, and accordingly, such measures may not be comparable. Please refer to the "Non-GAAP Measures" section following the Outlook section of this Press Release for applicable definitions, rationale for use, method of calculation and reconciliations where applicable.

Revenue

(Stated in thousands of dollars)

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

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

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

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

Operating Costs and Expenses

(Stated in thousands of dollars except percentages)

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

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

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

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

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

(Stated in thousands of dollars except percentages)

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

n.m. – not meaningful

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

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

Equity-settled share-based compensation relate to the amortization of the fair values of issued options of the Corporation using the Black-Scholes model. For the three-month period and year ended December 31, 2021, equity-settled share-based compensation expense increased to $49 thousand and $0.4 million, respectively, compared to $28 thousand and $0.2 million in the same 2020-periods. The higher equity-settled share-based compensation expense in both 2021-periods are largely due to the higher fair value of the 2021 options granted compared to the 2018 to 2020 options that vested during the respective periods.

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

(Stated in thousands of dollars)

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

n.m. – not meaningful

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

(Stated in thousands of dollars)

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

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

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

(Stated in thousands of dollars)

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

Net gain on disposition of drilling equipment typically result from insurance programs undertaken whereby proceeds for the lost equipment are at current replacement values, which are higher than the respective equipment's book value. The recognized gain is net of losses, which typically result from asset retirements that were made before the end of the equipment's useful life and self-insured downhole equipment losses. During the quarter and year ended December 31, 2021, the

Corporation recognized a $3.5 million and $7.7 million gain on dispositions, respectively, compared to gains of $1.2 million and $3.8 million in the corresponding 2020-periods. Over the course of 2021, the Corporation had a higher occurrence of downhole equipment losses resulting in a higher net gain on disposition of drilling equipment.

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

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

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

(Stated in thousands of dollars except percentages)

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

n.m. – not meaningful

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

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

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

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

n.m. – not meaningful

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

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

Segmented Information

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

---

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

Canada

(Stated in thousands of dollars)

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

(1) Includes adjustments to intercompany transactions.

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

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

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

United States

(Stated in thousands of dollars)

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

n.m. – not meaningful
(1) Includes adjustments to intercompany transactions.

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

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

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

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

International

(Stated in thousands of dollars)

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

n.m. – not meaningful

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

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

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

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

Investing Activities

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

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

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

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

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

Investments

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

Financing Activities

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

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

Capital Resources

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

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

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

n.m. – not meaningful

Cash Requirements for Capital Expenditures

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

These planned expenditures are expected to be financed from cash flow from operations, cash and cash equivalents, and / or the Corporation's unused credit facilities, if necessary. However, if a sustained period of market uncertainty and financial market volatility persists in 2022, the Corporation's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly where possible. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

As at December 31, 2021, the Corporation has commitments to purchase drilling and other equipment for $35.6 million. Delivery is expected to occur within the first half of 2022.

About PHX Energy Services Corp.

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

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

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

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

For further information please contact:

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

PHX Energy Services Corp.
Suite 1400, 250 2nd Street SW
Calgary, Alberta T2P 0C1
Tel: 403-543-4466 Fax: 403-543-4485 www.phxtech.com

Condensed Consolidated Statements of Financial Position

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

Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three-month periods ended December 31, 2021	Three-month periods ended December 31, 2020	Years ended December 31, 2021	Years ended December 31, 2020
	(Unaudited)	*(Unaudited)*		*(re-presented)*
Revenue	**$ 105,428,038**	$ 56,837,747	**$ 349,919,670**	$ 246,401,990
Direct costs	**84,275,522**	49,227,002	**278,265,030**	213,064,045
Gross profit	**21,152,516**	7,610,745	**71,654,640**	33,337,945
Expenses:				
Selling, general and administrative expenses	**13,510,462**	8,200,424	**46,710,478**	28,737,739
Research and development expenses	**1,048,545**	147,749	**2,773,559**	1,943,713
Finance expense	**117,261**	108,004	**495,958**	769,430
Finance expense lease liability	**515,614**	561,762	**2,125,017**	2,361,078
Other income	**(2,180,070)**	(1,821,129)	**(6,732,615)**	(2,025,479)
Impairment loss	**-**	-	**-**	10,729,587
	13,011,812	7,196,810	**45,372,397**	42,516,068
Earnings (loss) before income taxes	**8,140,704**	413,935	**26,282,243**	(9,178,123)
Provision for (Recovery of) income taxes				
Current	**(17,348)**	(238,270)	**(237,023)**	(980,058)
Deferred	**(493,899)**	(1,301,960)	**3,794,631**	(426,908)
	(511,247)	(1,540,230)	**3,557,608**	(1,406,966)
Net earnings (loss)	**8,651,951**	1,954,165	**22,724,635**	(7,771,157)
Other comprehensive loss				
Foreign currency translation	**(835,013)**	(3,646,415)	**(68,458)**	(2,879,860)
Total comprehensive earnings (loss)	**$ 7,816,938**	$ (1,692,250)	**$ 22,656,177**	$ (10,651,017)
Earnings (loss) per share - basic	**$ 0.18**	$ 0.04	**$ 0.46**	$ (0.15)
Earnings (loss) per share - diluted	**$ 0.17**	$ 0.04	**$ 0.44**	$ (0.15)

Condensed Consolidated Statements of Cash Flows

	Three-month periods ended December 31,		Years ended December 31,	
	2021	2020	**2021**	2020
	(Unaudited)	*(Unaudited)*		*(re-presented)*
Cash flows from operating activities:				
Net earnings (loss)	**$ 8,651,951**	$ 1,954,165	**$ 22,724,635**	$ (7,771,157)
Adjustments for:				
Depreciation and amortization	**6,898,289**	6,659,853	**25,860,400**	29,453,878
Depreciation and amortization right-of-use asset	**836,765**	838,112	**3,336,282**	3,561,488
Provision for income taxes	**(511,247)**	(1,540,230)	**3,557,608**	(1,406,966)
Impairment loss	**-**	-	**-**	10,729,587
Loss on remeasurement	**1,177,546**	-	**1,177,546**	-
Unrealized foreign exchange loss (gain)	**181,107**	(116,994)	**268,985**	(16,836)
Net gain on disposition of drilling equipment	**(3,458,991)**	(1,211,391)	**(7,718,185)**	(3,756,022)
Equity-settled share-based payments	**49,056**	27,844	**383,604**	241,853
Finance expense	**117,262**	108,004	**495,958**	769,430
Provision for (Recovery of) bad debts	**(1,547)**	(698,753)	**(280,612)**	1,644,980
Provision for inventory obsolescence	**361,493**	655,195	**2,033,144**	2,655,625
Interest paid	**(51,855)**	(52,693)	**(206,155)**	(388,068)
Income taxes received (paid)	**(97,340)**	7,740	**109,345**	417,342
Change in non-cash working capital	**(375,863)**	3,499,699	**(6,312,039)**	31,776,282
Net cash from operating activities	**13,776,626**	10,130,551	**45,430,516**	67,911,416
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	**5,237,647**	1,933,263	**12,363,604**	7,405,750
Acquisition of drilling and other equipment	**(11,134,819)**	(3,612,053)	**(35,304,507)**	(25,857,406)
Acquisition of intangible assets	**(1,852,731)**	-	**(1,852,731)**	-
Acquisition of equity investment	**-**	-	**(3,000,500)**	-
Change in non-cash working capital	**1,804,142**	(275,346)	**4,164,905**	(648,472)
Net cash used in investing activities	**(5,945,761)**	(1,954,136)	**(23,629,229)**	(19,100,128)
Cash flows from financing activities:				
Repurchase of shares under the NCIB	**(4,515,467)**	(603,849)	**(7,979,601)**	(3,796,095)
Purchase of shares held in trust	**(1,414,000)**	-	**(7,500,000)**	-
Dividends paid to shareholders	**(2,505,450)**	-	**(6,290,612)**	-
Payments of lease liability	**(856,425)**	(785,726)	**(3,294,608)**	(3,054,801)
Proceeds from issuance of share capital	**1,372,126**	69,750	**2,346,453**	77,500
Surrender value cash payment	**-**	-	**-**	(1,518,042)
Repayment of operating facility	**-**	-	**-**	(11,395,835)
Repayment of loans and borrowings	**-**	-	**-**	(13,960,400)
Net cash used in financing activities	**(7,919,216)**	(1,319,825)	**(22,718,368)**	(33,647,673)
Net increase (decrease) in cash and cash equivalents	**(88,351)**	6,856,590	**(917,081)**	15,163,615
Cash and cash equivalents, beginning of period	**24,917,181**	18,889,321	**25,745,911**	10,582,296
Cash and cash equivalents, end of period	**$ 24,828,830**	$ 25,745,911	**$ 24,828,830**	$ 25,745,911

Cautionary Statement Regarding Forward-Looking Information and Statements

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "could", "should", "can", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The Corporation believes the expectations reflected in such forward-looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements and information included in this document should not be unduly relied upon. These forward-looking statements and information speak only as of the date of this document.

In particular, forward-looking information and statements contained in this document include, without limitation, the anticipated impact of COVID-19 on the Corporation's operations, results and the Corporation's planned responses thereto, the anticipated impact of global supply chain disruptions on the Corporation's operations, results, and the Corporation's planned responses thereto; the anticipated increase in demand for the Corporations services and technologies in North America, the continuing discussion related to the sale of the Russian division and the possibility of an alternative formal agreement and anticipated closing and terms of the transaction to sell the Russian division, the intention to continue operations in Russia, the opportunities that will be created by the NESR partnership, the potential award of tenders in the region and the ramp up of activity in 2022, the anticipated continuation of PHX Energy's quarterly dividend program and the amounts of dividends, the potential future settlement of retention and performance awards in common shares that were purchased and held in trust by an independent trustee in the open market, the anticipation of resumed activity in Albania, and the timeline for delivery of equipment on order, the projected capital expenditures budget for 2022 and how these budgets will be allocated and funded.

The above are stated under the headings: "Dividends", "Capital Spending", "Responding to COVID-19", "Re-presentation of Assets Held for Sale", "Technology Arrangement", "Shares Held in Trust", "Segmented Information", "Investing Activities", "Financing Activities" and "Cash Requirements for Capital Expenditures". In addition, all information contained under the headings "Responding to COVID-19", and "Outlook" sections of this press release may contains forward-looking statements.

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

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with the Canadian Securities Regulatory Authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation's website. The forward-looking statements and information contained in this document are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-GAAP Measures

Adjusted EBITDA

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

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

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

(Stated in thousands of dollars)

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

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

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

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

Funds from Operations

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

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

(Stated in thousands of dollars)

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

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

Free Cash Flow

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

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

(Stated in thousands of dollars)

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

Working Capital

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

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

(Stated in thousands of dollars)

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

Net Debt

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

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

(Stated in thousands of dollars)

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

Gross Profit as a Percentage of Revenue

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

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

(Stated in thousands of dollars)

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

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

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

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

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

(Stated in thousands of dollars)

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