

Q3 2022



Financial Statements & Notes

Condensed Consolidated Statements of Financial Position

(unaudited)

	September 30, 2022	December 31, 2021 (Adjusted - Note 8f and 10)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,023,659	\$ 24,828,830
Trade and other receivables	112,630,127	76,478,093
Inventories	58,336,924	36,691,141
Prepaid expenses	2,599,453	2,814,272
Current tax assets	359,728	346,554
Total current assets	200,949,891	141,158,890
Non-current assets:		
Drilling and other long-term assets (Note 6)	107,152,534	76,363,001
Right-of-use assets	25,038,106	25,708,177
Intangible assets	15,662,594	16,137,024
Investments	3,000,500	3,000,500
Deferred tax assets	297,853	126,133
Other long-term assets	1,051,628	-
Total non-current assets	152,203,215	121,334,835
Total assets	\$ 353,153,106	\$ 262,493,725
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 103,369,941	\$ 77,571,887
Lease liability	2,619,881	3,232,503
Dividends payable (Note 8d)	5,078,134	2,482,060
Current tax liabilities	653,891	-
Total current liabilities	111,721,847	83,286,450
Non-current liabilities:		
Lease liability	32,777,446	32,638,819
Loans and borrowings (Note 7)	24,000,000	-
Deferred tax liability	16,643,504	9,346,426
Other (Note 8f)	2,993,251	2,789,786
Total non-current liabilities	76,414,201	44,775,031
Equity:		
Share capital (Note 8a)	250,370,939	235,463,414
Contributed surplus	7,110,486	9,462,091
Deficit	(124,817,481)	(121,721,790)
Accumulated other comprehensive income	32,353,114	11,228,529
Total equity	165,017,058	134,432,244
Total liabilities and equity	\$ 353,153,106	\$ 262,493,725

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 142,418,326	\$ 93,338,300	\$ 377,986,582	\$ 237,650,245
Direct costs	111,734,015	74,546,385	304,200,177	188,499,149
Gross profit	30,684,311	18,791,915	73,786,405	49,151,096
Expenses:				
Selling, general and administrative expenses	15,589,015	12,326,017	49,536,435	31,937,842
Research and development expenses	909,169	540,466	2,538,935	1,725,014
Finance expense	499,461	114,309	873,445	379,541
Finance expense lease liability	498,239	526,721	1,506,640	1,609,403
Other income (Note 9)	(3,953,620)	(52,249)	(11,031,501)	(4,557,847)
	13,542,264	13,455,264	43,423,954	31,093,953
Earnings from continuing operations before income taxes	17,142,047	5,336,651	30,362,451	18,057,143
Provision for (recovery of) income taxes				
Current	625,922	(239,049)	396,650	(218,596)
Deferred	3,041,401	1,369,882	5,987,492	4,288,530
	3,667,323	1,130,833	6,384,142	4,069,934
Earnings from continuing operations	13,474,724	4,205,818	23,978,309	13,987,209
Discontinued operations				
Net loss from discontinued operations, net of taxes (Note 4)	-	622,969	(14,558,032)	85,476
Net earnings	13,474,724	4,828,787	9,420,277	14,072,685
Other comprehensive income				
Foreign currency translation	8,739,048	2,659,311	10,563,631	490,323
Reclassification of foreign currency translation loss on disposition (Note 4)	-	-	10,560,954	-
Total comprehensive income for the period	\$ 22,213,772	\$ 7,488,098	\$ 30,544,862	\$ 14,563,008
Earnings per share – basic				
Continuing operations	\$ 0.27	\$ 0.09	\$ 0.48	\$ 0.28
Discontinued operations	\$ -	\$ 0.01	\$ (0.29)	\$ -
Net earnings	\$ 0.27	\$ 0.10	\$ 0.19	\$ 0.28
Earnings per share – diluted				
Continuing operations	\$ 0.27	\$ 0.08	\$ 0.48	\$ 0.27
Discontinued operations	\$ -	\$ 0.01	\$ (0.29)	\$ -
Net earnings	\$ 0.27	\$ 0.09	\$ 0.19	\$ 0.27

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

Nine-month period ended	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
September 30, 2022	Number	Amount (\$)				
Balance, December 31, 2021	47,978,662	\$ 235,463,414	\$ 9,462,091	\$ 11,228,529	\$ (121,721,790)	\$ 134,432,244
Issuance of share capital on exercise of options	1,140,138	2,170,885	-	-	-	2,170,885
Issuance of share capital from trust on settlement of retention awards	2,144,795	13,491,993	-	-	-	13,491,993
Common shares purchased and held in trust	(555,300)	(3,500,000)	-	-	-	(3,500,000)
Share-based payments	-	-	393,042	-	-	393,042
Fair value of options exercised	-	2,744,647	(2,744,647)	-	-	-
Net earnings	-	-	-	-	9,420,277	9,420,277
Foreign currency translation, net of tax	-	-	-	10,563,631	-	10,563,631
Reclassification of foreign currency translation loss on disposition (Note 4)	-	-	-	10,560,954	-	10,560,954
Dividends	-	-	-	-	(12,515,968)	(12,515,968)
Balance, September 30, 2022	50,708,295	\$ 250,370,939	\$ 7,110,486	\$ 32,353,114	\$ (124,817,481)	\$ 165,017,058

Nine-month period ended	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
September 30, 2021	Number	Amount (\$)				
Balance, December 31, 2020	50,625,920	\$ 247,543,263	\$ 10,131,786	\$ 11,296,987	\$ (136,939,398)	\$ 132,032,638
Issuance of share capital on exercise of options	443,967	974,327	-	-	-	974,327
Common shares repurchased and cancelled	(960,888)	(3,464,134)	-	-	-	(3,464,134)
Common shares purchased and held in trust	(1,376,280)	(6,086,000)	-	-	-	(6,086,000)
Share-based payments	-	-	334,548	-	-	334,548
Fair value of options exercised	-	478,605	(478,605)	-	-	-
Net earnings	-	-	-	-	14,072,685	14,072,685
Foreign currency translation, net of tax	-	-	-	490,323	-	490,323
Dividends	-	-	-	-	(5,024,965)	(5,024,965)
Balance, September 30, 2021	48,732,719	\$ 239,446,061	9,987,729	11,787,310	(127,891,678)	133,329,422

See accompanying notes to unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	2022	2021
Cash flows from operating activities:				
Earnings from continuing operations	\$ 13,474,724	\$ 4,205,818	\$ 23,978,309	\$ 13,987,209
Adjustments for:				
Depreciation and amortization	8,143,257	6,452,951	23,242,730	18,962,111
Depreciation and amortization right-of-use asset	744,876	838,164	2,429,603	2,499,517
Provision for income taxes	3,667,323	1,130,833	6,384,142	4,069,934
Unrealized foreign exchange loss (gain)	155,128	(112,152)	36,602	76,664
Net (gain) loss on disposition of drilling equipment	(4,157,247)	39,049	(10,798,870)	(4,263,147)
Equity-settled share-based payments	133,034	116,230	393,042	334,548
Finance expense	499,461	114,309	873,445	379,541
Recovery of bad debts	(1,501)	(14,442)	(1,501)	(279,065)
Provision for inventory obsolescence	51,868	565,770	876,524	1,671,651
Interest paid	(413,530)	(48,308)	(591,701)	(155,144)
Income taxes received	9,461	227,073	228,591	206,757
Change in non-cash working capital	(679,450)	8,785,575	(17,683,437)	(4,910,344)
Continuing operations	21,627,404	22,300,870	29,367,479	32,580,232
Discontinued operations (Note 4)	-	(336,193)	(1,254,859)	(926,342)
Net cash from operating activities	21,627,404	21,964,677	28,112,620	31,653,890
Cash flows from investing activities:				
Proceeds on disposition of drilling equipment	6,274,079	578,521	15,453,628	7,104,335
Acquisition of drilling and other equipment	(18,631,230)	(6,751,036)	(52,051,148)	(24,159,193)
Acquisition of intangible assets	(74,189)	-	(692,394)	-
Acquisition of private equity investments	-	(3,000,500)	-	(3,000,500)
Change in non-cash working capital	(370,923)	(2,354,966)	339,967	2,360,763
Continuing operations	(12,802,263)	(11,527,981)	(36,949,947)	(17,694,595)
Discontinued operations (Note 4)	-	(2,728)	(68,068)	11,127
Net cash used in investing activities	(12,802,263)	(11,530,709)	(37,018,015)	(17,683,468)
Cash flows from financing activities:				
Proceeds from loans and borrowings	3,892,008	-	24,000,000	-
Proceeds from issuance of share capital	359,032	579,056	2,170,885	974,327
Dividends paid to shareholders	(3,796,793)	(1,259,757)	(10,069,396)	(3,785,162)
Purchase of shares held in trust	-	(2,769,829)	(3,500,000)	(6,086,000)
Payments of Lease Liability	(734,273)	(832,303)	(2,466,184)	(2,438,183)
Repurchase of shares under the NCIB	-	(2,260,001)	-	(3,464,134)
Continuing operations	(280,026)	(6,542,834)	10,135,305	(14,799,152)
Discontinued operations	-	-	-	-
Net cash from (used in) financing activities	(280,026)	(6,542,834)	10,135,305	(14,799,152)
Net increase (decrease) in cash and cash equivalents	8,545,115	3,891,134	1,229,910	(828,730)
Cash and cash equivalents, beginning of period	17,971,334	21,026,047	24,828,830	25,745,911
Effect of movements in exchange rates on cash held	507,210	-	964,919	-
Cash and cash equivalents, end of period	\$ 27,023,659	\$ 24,917,181	\$ 27,023,659	\$ 24,917,181

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2022 and 2021

In Canadian dollars (unaudited)

1. Reporting Entity

PHX Energy Services Corp. ("PHX Energy" or the "Corporation") is a publicly-traded Corporation listed on the Toronto Stock Exchange ("TSX") under the symbol "PHX". The Corporation's registered office is at Suite 1600, 215 – 9th Avenue SW Calgary, Alberta, Canada.

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

The condensed consolidated interim financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation has presented its operations in Russia as a discontinued operation (see Note 4).

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended December 31, 2021.

These condensed consolidated interim financial statements were authorized by the Board of Directors on November 7, 2022.

b) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on a going concern basis using the historical cost basis except for liabilities for cash-settled share-based payment arrangements and investments, which

are measured at fair value. Liabilities for cash-settled share-based payment arrangements are included in trade and other payables and other non-current liabilities in the statement of financial position.

c) Functional and Presentation Currency

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

d) Use of Estimates and Judgments

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by Management in applying the Corporation's accounting policies and the key sources of estimation uncertainty have not changed significantly since December 31, 2021.

3. Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Corporation for the year ended December 31, 2021, unless specified.

4. Discontinued Operations

a) Impairment and Other Write-Offs of Russian Assets

In the first quarter of 2022, the Corporation determined the Russian operations to be in its own cash-generating unit ("CGU") due to a divergence in its overall risk profile from the rest of the International CGU. Concurrently, PHX Energy recognized:

- Impairment loss of approximately \$0.4 million on drilling and other equipment owned by the Russian operations, Phoenix TSR LLC ("Phoenix TSR");
- Write-offs of \$0.6 million related to inventories owned by the Russian operations; and,
- Expected credit losses of \$1 million related to certain trade receivables owned by Phoenix TSR.

b) Discontinued Operations and Loss on Disposition

On June 30, 2022, the Corporation completed the sale of its Russian division. The transaction involved the sale of all shares of Phoenix TSR, a legally wholly-owned subsidiary of PHX Energy that held the entire Russian drilling operations. The operations were previously classified under the Russia operating segment for reporting purposes.

	June 30, 2022
Consideration on sale of Phoenix TSR, satisfied in cash	\$ 404
Less net assets of Phoenix TSR comprised of working capital:	(3,496,576)
Loss on disposition of Phoenix TSR	\$ (3,496,172)

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

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	2022	2021
Revenue	\$ -	\$ 3,209,476	\$ 7,443,368	\$ 6,841,387
Expenses	-	(2,586,507)	(5,781,276)	(6,756,990)
	-	622,969	1,662,092	84,397
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	-	-	(10,560,954)	-
Loss on disposition of Phoenix TSR	-	-	(3,496,172)	-
Impairment and other write-offs	-	-	(1,966,848)	-
Loss from discontinued operations	-	622,969	(14,361,882)	84,397
Income tax (recovery) from discontinued operations	-	-	196,150	(1,079)
Loss from discontinued operations, net of taxes	\$ -	\$ 622,969	\$ (14,558,032)	\$ 85,476

Reconciliation of net loss from discontinued operations, net of taxes to cash used in discontinued operations is as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	2022	2021
Net loss from discontinued operations, net of taxes	\$ -	\$ 622,969	\$ (14,558,032)	\$ 85,476
Addback (deduct):				
Depreciation and amortization	-	-	136,024	-
Provision for income taxes	-	-	196,150	(1,079)
Unrealized foreign exchange (gain) loss		3,638	(56,497)	11,214
Interest and taxes received (paid), net		(3,006)	(3,316)	772
Loss (gain) on disposition of drilling equipment	-	9,675	68,068	3,953
Finance expense	-	3,071	3,316	(844)
Reclassification of foreign currency translation loss on disposition of Phoenix TSR	-	-	10,560,954	-
Impairment and other write-offs	-	-	1,966,848	-
Loss on disposition of Phoenix TSR	-	-	3,496,172	-
Change in non-cash working capital	-	(972,540)	(3,064,546)	(1,025,834)
Cash used in operating activities	\$ -	\$ (336,193)	\$ (1,254,859)	\$ (926,342)

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

5. Operating Segments

The Corporation provides directional and horizontal oil and natural gas well drilling services. PHX Energy's reportable segments have been aligned as follows:

Information about reportable segments

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Three-month periods ended September 30,	2022	2021	2022	2021	2022	2021	2022	2021
Total Revenue	30,996	19,322	110,228	74,016	1,194	-	142,418	93,338
Reportable segment profit (loss) before income taxes	4,479	2,258	17,056	8,760	420	(302)	21,955	10,716

(Stated in thousands of dollars)

	Canada		United States		International		Total	
Nine-month periods ended September 30,	2022	2021	2022	2021	2022	2021	2022	2021
Total Revenue	77,839	45,018	297,390	192,632	2,758	-	377,987	237,650
Reportable segment profit (loss) before income taxes	7,930	4,807	40,387	23,611	781	(1,101)	49,098	27,317

(Stated in thousands of dollars)

	Canada		United States ⁽¹⁾		International		Total	
As at September 30,	2022	2021	2022	2021	2022	2021	2022	2021
Drilling and other equipment	24,215	13,686	82,441	58,769	497	318	107,153	72,773

⁽¹⁾ September 30, 2022 includes USD \$1.7 million of drilling and other equipment physically located in the Middle East region (2021 – USD \$1.5 million).

Reconciliation of reportable segment profit and other material items

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	2022	2021
Reportable segment income before income taxes	21,955	10,716	49,098	27,317
Corporate:				
Selling, general and administrative expenses	6,861	4,250	24,849	10,104
Research and development expenses	909	540	2,539	1,725
Finance expense	499	114	873	380
Finance expense lease liability	498	527	1,507	1,609
Other income	(3,954)	(52)	(11,032)	(4,558)
Earnings from continuing operations before income taxes	17,142	5,337	30,362	18,057

6. Drilling and Other Equipment

a) Acquisitions and Disposals

During the nine-month period ended September 30, 2022, the Corporation acquired assets with a cost of \$52.1 million (2021 - \$24.2 million).

Assets with a carrying amount of \$4.7 million (2021 - \$2.8 million) were disposed of as a result of tools lost down hole and scrapped assets, resulting in a net gain on disposition of \$10.8 million (2021 - \$4.3 million), which is included in other income (see note 9) in the condensed consolidated statement of comprehensive income.

b) Capital Commitments

As at September 30, 2022, the Corporation has commitments to purchase drilling and other equipment for \$46.7 million with delivery expected to occur throughout the rest of the 2022 year and into early 2023.

7. Loans and Borrowings

(Stated in thousands of dollars)

	Currency	Amount of Facility	Date of Maturity	Currency	Carrying Amount at September 30, 2022	Currency	Carrying Amount at December 31, 2021
Operating Facility	CAD	15,000	December 12, 2025	CAD	-	CAD	-
Syndicated Facility	CAD	50,000	December 12, 2025	CAD	24,000	CAD	-
US Operating Facility	USD	15,000	December 12, 2025	USD	-	USD	-

Under the syndicated loan agreement, the Corporation is required to maintain certain financial covenants. As at September 30, 2022 the Corporation was in compliance with all of its financial covenants as follows:

Ratio	Covenant	September 30, 2022
Debt to covenant EBITDA	< 3.0x	0.35
Interest coverage ratio	> 3.0x	69.52

The facilities bear interest based primarily on the Corporation's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined in the credit agreement. Interest on the operating facility is at the bank's prime rate plus 0.5 percent. Interest on the syndicated facility is at the Secured Overnight Financing Rate ("SOFR") plus 1.5 percent.

On August 24, 2022, the Corporation extended the maturity date of the syndicated loan agreement to December 12, 2025. As at September 30, 2022 the Corporation has approximately CAD \$41 million and USD \$15 million available to be drawn from its credit facilities. The credit facilities are secured by substantially all of the Corporation's assets.

8. Share Capital

a) Authorized and Issued Shares

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

	Number		Amount
Balance as at January 1, 2021	50,625,920	\$	247,543,263
Common shares repurchased and cancelled	(1,960,788)		(7,979,601)
Common shares repurchased and held in trust	(1,662,537)		(7,500,000)
Issued shares pursuant to share option plan	976,067		3,399,752
Balance as at December 31, 2021	47,978,662	\$	235,463,414
Common shares repurchased and held in trust	(555,300)		(3,500,000)
Issued shares pursuant to retention awards plan	2,144,795		13,491,993
Issued shares pursuant to share option plan	1,140,138		4,915,532
Balance as at September 30, 2022	50,708,295	\$	250,370,939

b) Share Option Program (Equity-Settled)

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

Summary of option grants in 2022

Number	Exercise Price	Expiration Date	Fair Value
150,000	\$ 6.08	March 4, 2027	\$ 1.91
100,000	6.16	March 4, 2027	1.89
250,000			

The Corporation values all of its share options using the Black-Scholes model. The Corporation's determination of fair value of options on the date of grant is affected by the Corporation's share price as well as assumptions regarding a number of variables. For the options granted during 2022 these variables include, but are not limited to, the Corporation's expected share price volatility over the term of the options of 54 percent, forfeiture rate of nil, dividend yield of 4.89 percent and a risk-free interest rate of 1.4 percent. The amounts computed according to the Black-Scholes model method may not be indicative of the actual values realized upon the exercise of these options by the holders.

During the nine-month period ended September 30, 2022, a total of 1,047,800 options granted in 2017 were net equity-settled through the issuance of 342,972 common shares. Total compensation expense related to stock options recognized for the three and nine-month periods ended September 30, 2022 were \$0.1 million and \$0.4 million, respectively (2021 - \$0.1 million and \$0.3 million, respectively).

A summary of the status of the plan as at September 30, is presented below:

	September 30, 2022		December 31, 2021	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, beginning of period	2,854,200	\$ 3.15	3,345,267	\$ 3.01
Granted	250,000	6.11	500,000	2.70
Exercised	(1,844,966)	3.49	(976,067)	2.40
Forfeited / cancelled	-	-	(15,000)	4.15
Outstanding, end of period	1,259,234	3.25	2,854,200	3.15
Options exercisable, end of period	925,894	2.83	2,437,530	3.25

The range of exercise prices for options outstanding at September 30, 2022 are as follows:

Options Outstanding			Options Exercisable	
Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
50,000	0.44 yrs	1.95	50,000	1.95
75,900	0.44 yrs	2.00	75,900	2.00
50,000	2.43 yrs	2.09	50,000	2.09
150,000	2.43 yrs	2.19	150,000	2.19
133,334	3.43 yrs	2.64	66,666	2.64
300,000	3.43 yrs	2.74	199,998	2.74
200,000	1.44 yrs	2.81	200,000	2.81
50,000	1.44 yrs	2.83	50,000	2.83
150,000	4.43 yrs	6.08	49,998	6.08
100,000	4.43 yrs	6.16	33,332	6.16
1,259,234	2.77 yrs	\$ 3.25	925,894	\$ 2.83

c) Retention Award Plan

The retention award plan has two types of awards: Restricted Awards ("RAs") and Performance Awards ("PAs") and results in eligible participants receiving cash or common shares in relation to the value of a specified number of underlying notional retention awards. If common shares are used to settle awards, an additional multiplier to the award value of 1.25 times is applied. Common shares acquired in the open market are held in trust for the potential settlement of RA and PA award values and are netted out of share capital, including the cumulative purchase cost,

until they are distributed for future settlements. For the nine-month period ended September 30, 2022, the trustee purchased 555,300 common shares (2021 – 1,376,280) for a total cost of \$3.5 million (2021 - \$6.1 million) and released 2,144,795 common shares (2021 – nil) to settle retention award obligations of \$13.5 million (2021 - \$nil). As at September 30, 2022, the Corporation held 73,044 common shares in trust (2021 – 1,376,280). The Corporation continues to account for its retention award plan as cash-settled share-based compensation.

RAs vest evenly over a period of three-years. Upon vesting and subsequent exercise, the holder is entitled to receive a cash payment or common shares based on the fair value of the underlying shares determined using the five-day weighted-average trading price of the shares ending immediately prior to the exercise date plus accrued re-invested dividends.

PAs vesting and subsequent exercise is similar to RAs, except a payout multiplier is applied to the final payout. The payout multiplier is linked solely to total shareholder return on the Corporation's common shares relative to returns on securities of members of the Corporation's peer comparison group over the applicable vesting period and can range from a payout of zero percent to 200 percent. For the nine-month period ended September 30, 2022, 750,000 PAs were granted (2021 – 750,000), 774,152 PAs settled at a weighted average payout multiplier of 200 percent (2021 – 757,184), no PAs were forfeited (2021 - nil), and as at September 30, 2022, 1,565,276 PAs were outstanding (2021 – 1,529,226).

The Corporation recorded a total of \$17.6 million compensation expense relating to these plans for the nine-month period ended September 30, 2022 (2021 – \$9.9 million). The expense is included in selling, general and administrative expense and has a corresponding liability in trade and other payables for the current portion and other liabilities for the long-term portion. There were 3,293,538 RAs and PAs outstanding as at September 30, 2022 (2021 - 3,235,724).

A summary of the status of the plan as at September 30, 2022 is presented below:

	September 30, 2022	December 31, 2021
RAs and PAs outstanding, beginning of period	3,267,579	3,487,297
Granted	1,610,996	1,666,514
Settled	(1,585,037)	(1,808,415)
Forfeited / cancelled	-	(77,817)
RAs and PAs outstanding, end of period	3,293,538	3,267,579

d) Dividends

On September 15, 2022, the Corporation declared a dividend of \$0.10 per share or \$5.1 million payable on October 17, 2022.

e) Normal Course Issuer Bid

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

For the nine-month period ended September 30, 2022, the Corporation did not repurchase shares through its previous and current NCIB.

The Corporation's previous NCIB commenced on August 16, 2021 and terminated on August 15, 2022. Pursuant to the previous NCIB, 1,499,900 common shares were purchased by the Corporation and cancelled as at December 31, 2021.

f) Prior Period Adjustment

The Corporation identified that the classification of the cash-settled liability awards between current and long-term liabilities was not correct as at December 31, 2021. As a result, the Corporation adjusted the December 31, 2021 statement of financial position to reclassify \$2.8 million of liabilities from current (trade and other payables) to long-term (other non-current liabilities).

9. Other Income

(Stated in thousands of dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2022	2021	2022	2021
Net gain on disposition of drilling equipment	(4,157)	39	(10,799)	(4,263)
Foreign exchange (gains) losses	205	(77)	281	(16)
Recovery of bad debts	(2)	(14)	(2)	(279)
Other	-	-	(512)	-
Other income	(3,954)	(52)	(11,032)	(4,558)

10. Fair Values of Financial Instruments

The Corporation has designated its trade and other payables, dividends payable, and loans and borrowings as non-derivative financial liabilities carried at amortized cost. Cash and cash equivalents and trade and other receivables are designated as non-derivative financial assets measured at amortized cost. The Corporation's carrying values of these items, excluding loans and borrowings, approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings bears interest at a floating market rate indicative of current spreads and accordingly the fair value approximate the carrying value.

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

Corporate Information

Board of Directors

John Hooks
Randolph ("Randy") M. Charron
Myron Tétreault
Karen David-Green
Lawrence Hibbard
Roger Thomas
Terry Freeman

Officers

John Hooks
CEO

Michael Buker
President

Cameron Ritchie
Sr. Vice President Finance and CFO
Corporate Secretary

Craig Brown
Sr. Vice President Engineering and
Technology

Jeffery Shafer
Sr. Vice President Sales and Marketing

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Odyssey Trust Company
Calgary, Alberta