GEAR ENERGY

# Monthly Update

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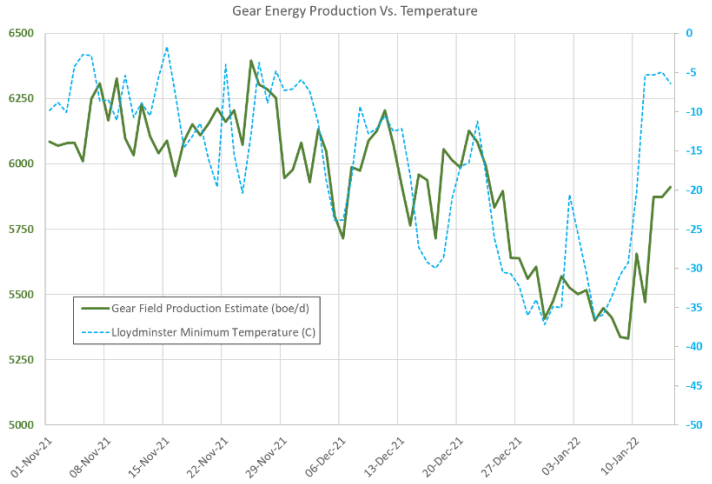
## FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

Gear is pleased to provide the following key operational and financial information for investors:

| | Q2 20 | Q3 20 | Q4 20 | 2020 | Q1 21 | Q2 21 | Q3 21 | Oct-21 | Nov-21 | Dec-21 | Q4 21 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| WTI Benchmark Price ($US/bbl) | 27.85 | 40.93 | 42.66 | 39.40 | 57.84 | 66.07 | 70.56 | 81.22 | 78.65 | 71.69 | 77.19 | 67.57 |
| WCS Heavy Oil Differential ($US/bbl) | (11.47) | (9.09) | (9.31) | (12.60) | (12.47) | (11.49) | (13.58) | (11.92) | (13.40) | (18.58) | (14.63) | (12.45) |
| MSW Light Oil Differential (US$/bbl) | (6.14) | (3.51) | (4.07) | (5.33) | (5.24) | (3.11) | (4.08) | (3.38) | (2.02) | (3.89) | (3.10) | (3.88) |
| Funds from Operations ($MM) | 8.1 | 10.8 | 8.3 | 33.4 | 8.3 | 12.2 | 16.0 | 6.8 | 6.9 | 4.3 | 17.9 | 54.4 |
| Capital and Abandonment Expenditures ($MM) | 0.3 | 0.8 | 0.5 | 13.4 | 8.3 | 6.0 | 10.3 | 2.5 | 2.6 | 0.9 | 5.9 | 30.5 |
| Net Debt ($MM) | 70.2 | 60.5 | 52.9 | 52.9 | 42.9 | 33.4 | 27.9 | 23.5 | 19.2 | 16.0 | 16.0 | 16.0 |
| Production (boe/d) | 2,749 | 5,867 | 5,821 | 5,298 | 5,335 | 5,440 | 5,859 | 5,946 | 6,521 | 5,725 | 6,059 | 5,676 |
| ***Note: All items are based on estimates; actuals will vary from estimates due to accruals and adjustments. Such variances may be material.*** | | | | | | | | | | | | |

Oil and Gas production in Canada can be challenging at times. And December of 2021 was one of those times. It got cold. Really really cold. And ironically, when energy is needed the most, it is often increasingly difficult to reliably provide. I think this chart pretty much says it all.




During the cold snap, it was fascinating how well correlated Gear's production was to temperature. And this doesn't even include the impacts of wind chill. We were receiving reports of apparent temperatures below minus 50 degrees from some of our field staff. It is amazing how resilient and capable they truly are to handle such extremes for us. Huge kudos are deserved by all!

In case you are curious what really happens in the field during these cold snaps, a few key observations include:

- Gas lines freezing off, making it impossible to heat tanks and run engines (the engines that run the downhole pumps).
- Service rigs are not able to mobilize to perform pump changes or cleanouts for wells that have gone down.
- People have to work slower, because to be safe at these temperatures they have to limit their outdoor exposure.
- Trucks are unable to pick up or deliver sales oil because roads are icy and access to well sites is cut off due to deep snow.
- And the list goes on.

Unfortunately, many of these issues cannot be dealt with until the weather warms up. Then there is the inevitable backlog of wells that require service and only so many crews to share. These challenges seem to be slightly more prevalent when you are dealing with heavy oil operations. The main reason being that when you take a highly viscous oil and you expose it to such extreme cold temperatures, it essentially becomes a solid. I have seen our heavy oil spilled on the snow and then rolled up like a carpet and placed back into a tank.

Typically, these extreme cold events are short lived and quickly managed. However, this time, the cold that hit us through December and into January was longer than usual and eventually impacted our ability to deliver all the oil we expected for the fourth quarter. Preliminary numbers have us about 3 percent below expectations for the fourth quarter and about half a percentage point away from the low end of our annual guidance.

The bright side to all of this is that both WTI prices and heavy oil differentials have improved dramatically into the new year. Current expectations are for January heavy oil pricing to be about $15 per barrel higher than December, and February an astonishing $25 per barrel higher! So, when we do have all the production back up and running smoothly, and we can safely deliver the oil that stayed in inventory over year end, it will all be selling at material premiums to what it might have sold for in December.

Certain information in this monthly update is forward-looking within the meaning of certain securities laws, and is subject to important risks, uncertainties and assumptions. This forward-looking information may include, among other things, estimated production, expected funds from operations and profit from certain assets of Gear, expectations of commodity prices and price differentials, demand for oil, capital expenditure budgets and estimates, royalty rates, operating costs, credit/debt requirements, and drilling inventory and locations. Readers should not rely on such forward-looking information to make investment decisions as the results or events anticipated or predicted in such forward-looking information may differ materially from actual results or events as a result of a number of factors including based on the risk factors as set forth in Gear's most recent annual information form (the "**AIF**"), which is available on this website and at www.sedar.com. Gear has based the forward-looking information on a number of assumptions including the assumptions identified in such monthly updates, which may not be realized. It has also assumed that the risk factors discussed in the AIF will not cause such forward-looking information to differ materially from actual results or events. The forward-looking information in this monthly update describes the expectations of management of Gear as of the respective dates of this monthly update and Gear does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws. Readers should not rely on the views of management of Gear as set out in this monthly update to make investment decisions with respect to Gear or other companies in the oil and gas industry and should instead consult with their own investment advisors.

This monthly update may include certain key performance indicators to analyze financial and operating performance such as funds from operations, funds from operations per debt adjusted share, production per day per thousand debt adjusted shares, operating netbacks, corporate netbacks and net debt, which do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("**GAAP**") and therefore may not be comparable with the calculation of similar measures for other entities. For additional information on these non-GAAP measures, see Gear's most recent management's discussion and analysis which is available on Gear's website at www.gearenergy.com and at www.sedar.com.

**Barrel of oil equivalent ("boe") used in the monthly updates have been based on a conversion ratio of 1 barrel of oil to 6 thousand cubic feet of natural gas. A boe may be misleading, particularly if used in isolation, as such conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.**