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:

	Q1 21	Q2 21	Q3 21	Q4 21	2021	Jan-22	Feb-22	Mar-22	Q1 22	2022 TD
WTI Benchmark Price ($US/bbl)	57.84	66.07	70.56	77.19	67.57	82.98	91.63	108.26	94.29	94.29
WCS Heavy Oil Differential ($US/bbl)	(12.47)	(11.49)	(13.58)	(14.63)	(12.45)	(17.38)	(12.53)	(13.69)	(14.53)	(14.53)
MSW Light Oil Differential (US$/bbl)	(5.24)	(3.11)	(4.08)	(3.10)	(3.88)	(4.77)	(2.40)	(1.70)	(2.96)	(2.96)
Funds from Operations ($MM)	8.3	12.2	16.0	17.9	54.4	5.2	5.3	8.2	18.8	18.8
Capital and Abandonment Expenditures ($MM)	8.3	6.0	10.3	5.9	30.5	2.9	3.5	3.2	9.6	9.6
Net Debt ($MM)	42.9	33.4	27.9	15.8	15.8	13.5	11.7	6.7	6.7	6.7
Production (boe/d)	5,335	5,440	5,859	6,059	5,676	5,455	5,772	5,882	5,701	5,701

Note: All items are based on estimates; actuals will vary from estimates due to accruals and adjustments. Such variances may be material.

After releasing the February monthly update, we received the highest volume of inbound shareholder queries that I think we have ever had. The questions all revolved around one thing:

"If field netbacks were so high, why didn't the funds from operations also incline?"

The simple answer was hedging, and so for the benefit of all shareholders we thought that would be a good subject to discuss in more detail. Our hedging summary is included in the corporate presentation on the website, it is reproduced here for reference.

Product	Term (inclusive)	Contract	Volume bbl/d	Currency	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
WTI	Jan 22 – Mar 22	3-way collar	2,400	CAD	86.00	62.50	50.00
WTI	Apr 22 – Jun 22	Put spread*	2,400	CAD		62.50	50.00
WTI	Jul 22 – Sep 22	3-way collar	2,400	CAD	116.50	62.50	50.00
WTI	Oct 22 – Dec 22	3-way collar	1,200	CAD	120.00	65.00	50.00

Historically at Gear, hedging has been very successful at helping to stabilize revenue through times of volatility. However, now that we find ourselves in a high oil price environment, our funds from operations are being negatively impacted by the sold calls highlighted above in yellow.

Almost exactly a year ago, WTI was trading just above US$60 per barrel and as per the terms our credit agreement we were required by our banking syndicate to hedge 50 per cent of our production net of royalties. At that time, we chose to enter a costless collar with a WTI CAD$86 per barrel sold call. This essentially means that for 2,400 barrels of oil per day for the entire first quarter of 2022, our oil price was capped at that price.

As it turns out, the actual average WTI oil price for the first quarter of 2022 was just under CAD $120 per barrel. As a result, for the quarter we expect to report realized risk management (hedging) losses of approximately $7.2 million. The math equates to 2,400 barrels of oil for 90 days multiplied by the difference between approximately $120 and $86. Interestingly, if you were to look at the estimated funds from operations for the first quarter before these losses, the $26 million amount would have been a record high for Gear. This observation is a nice way to transition the conversation towards the second quarter of 2022.

As you can see in the summary table, there is no sold call for the second quarter of 2022. Instead of entering a costless collar, we chose to pay a premium of CAD $2.32 per barrel to only enter the put spread, leaving Gear 100 per cent exposed to any oil price upside for the entire second quarter. The cost for that contract will be just over $500 thousand, and if prices stay strong, that will be money extremely well spent.

Then as we look to the second half of the year, you can see that once again we chose to enter costless collars with sold calls at CAD $116.50 and $120 per barrel. The one other important thing to note is that we reduced our hedged volumes for the fourth quarter to only 1,200 barrels per day or approximately 25 per cent of production net of royalties. This decision was made as result of the credit agreement in the fall renewal relaxing the hedging requirements somewhat and an internal strategic decision related to our forecast to achieve zero net debt.

With current oil prices, we are forecasting very strong funds from operations in the second quarter of 2022 followed by some additional hedging losses in the second half of the year. However, fortunately as of today we expect those future losses to be nothing like what we are estimating for the first quarter.

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.