Monthly Update

May 17, 2022
Vol. 9 Issue 4

FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

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

	Q2 21	Q3 21	Q4 21	2021	Feb-22	Mar-22	Q1 22	Apr-22	2022 TD
WTI Benchmark Price ($US/bbl)	66.07	70.56	77.19	67.57	91.63	108.26	94.29	101.64	96.13
WCS Heavy Oil Differential ($US/bbl)	(11.49)	(13.58)	(14.63)	(12.45)	(12.53)	(13.69)	(14.53)	(12.58)	(14.05)
MSW Light Oil Differential (US$/bbl)	(3.11)	(4.08)	(3.10)	(3.88)	(2.40)	(1.70)	(2.96)	0.61	(2.07)
Funds from Operations ($MM)	12.2	16.0	17.9	54.4	5.3	8.2	18.8	10.1	28.8
Capital and Abandonment Expenditures ($MM)	6.0	10.3	5.9	30.5	3.5	3.2	9.6	1.4	11.0
Net Surplus (Debt) ($MM)	(33.4)	(27.9)	(15.8)	(15.8)	(11.7)	(6.7)	(6.7)	1.9	1.9
Production (boe/d)	5,440	5,859	6,059	5,676	5,772	5,882	5,701	5,613	5,679

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

As reported with the first quarter results on May 4, 2022, Gear successfully achieved zero net debt late in April of 2022. A few days later, Gear successfully exited April with its first ever positive net surplus. A new record, and very exciting times! And while we are speaking of records, April 2022 Funds from Operations of $10.1 million is also a Company record. The last time we even came close to that kind of number was in September of 2014 when production was almost 7,300 boe per day. This exceptional FFO generation was delivered despite sales production being reduced by a temporary power outage in Southeast Saskatchewan at the end of April and almost 200 barrels of oil per day going into inventory during the month.

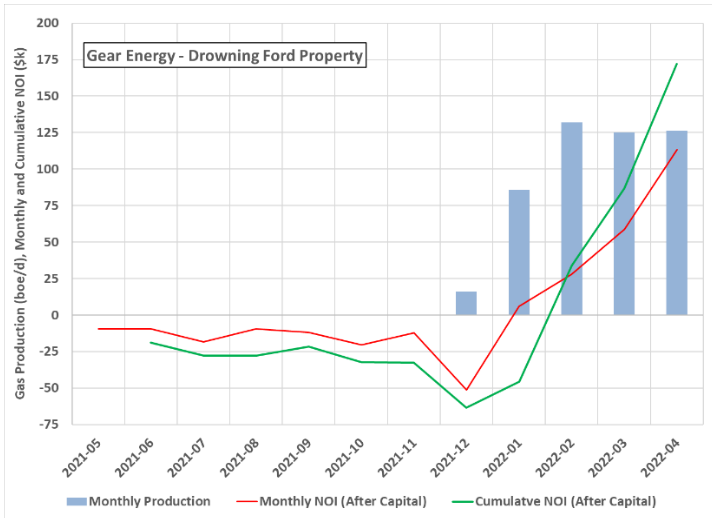
In addition to the strong financial performance associated with the oil side of the business, the gas side has also started to deliver some very positive and noteworthy results. Gear's April received price for its small amount of gas production was a stunning $7.25 per mcf. While that may not seem relevant to such a highly oil weighted company, it turns out, there always seems to be opportunities to create value when you look hard enough for them.

There is a prime example of this shown in the following chart. A property Gear owns called Drowning Ford in Southern Alberta near Medicine Hat used to be just a material liability. The property consisted of 49 suspended shallow gas well that were costing Gear approximately $10,000 per month in fixed costs. About a year ago, the team at Gear presented a proposal to reactivate all the wells, tie them in and bring the long dormant field back on production. At the time the economics were marginal due to mediocre gas prices (compared to now). However, we proceeded anyway as the project was estimated to pay out in a reasonable time frame and all 49 wells would move from the liability column to the asset column.

Capital investment on the project kicked off in the fall of 2021, and the first gas production came on just before year end. Fortunately, the production came on better than expected, and gas prices have been much stronger than forecasted.

The total reactivation project only required an investment of $95,000 of capital. By February of 2022, not only had we paid back that $95,000, but we had also paid back all the cumulative operating losses since May of 2021. With the total cumulative net operating income (net of invested capital) now at approximately $175,000, we have essentially paid back the project almost three times over, so far.

Perhaps even more exciting, if you look at the trajectory of net operating income, it appears that we have only just started to create value here. While this asset only contributed about 1 per cent of April's total corporate net operating income, sometimes it is not the scale of the project that matters, but the scale of the relative returns. Which in this case, will be hard to beat. Needless to say, the Gear team is continuing to scour the asset base to find another "Drowning Ford".



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.