GEAR ENERGY

Monthly Update

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FROM THE DESK OF DAVID HWANG, VICE PRESIDENT FINANCE & CFO

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

With MSW added:

	Q1 22	Q2 22	Q3 22	Q4 22	2022	Jan-23	Feb-23	Mar-23	Q1 23	2023 TD
WTI Benchmark Price ($US/bbl)	94.29	108.41	91.55	82.65	94.23	78.16	76.86	73.37	76.13	76.13
WCS Heavy Oil Differential ($US/bbl)	(14.53)	(12.80)	(19.89)	(25.42)	(18.16)	(28.21)	(25.70)	(20.38)	(24.76)	(24.76)
MSW Light Oil Differential (US$/bbl)	(2.96)	(0.50)	(2.05)	(1.61)	(1.78)	(3.07)	(3.81)	(1.71)	(2.86)	(2.86)
Funds from Operations ($MM)	18.8	33.8	22.5	18.7	93.8	3.8	4.5	4.7	13.0	13.0
Capital and Abandonment Expenditures ($MM)	9.6	9.2	17.7	20.3	56.8	10.0	6.4	2.1	18.4	18.4
Net Surplus (Debt) ($MM)	(6.7)	9.8	7.0	(2.2)	(2.2)	(11.0)	(15.5)	(15.3)	(15.3)	(15.3)
Production (boe/d)	5,701	5,777	5,727	5,755	5,739	5,705	6,164	6,009	5,952	5,952

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

April has arrived in Canada, and for most of us, that means it's time to file our personal income taxes. For corporations with a calendar year-end, there is a bit more time to file taxes (June 30th to be exact). However, it seems that this is as good a time as any to time to talk about taxes, and more importantly, Gear's tax position.

Firstly, we should start off with an elementary look at how income taxes work for the oil and gas industry. The calculation of income tax expense is relatively straightforward:

> Income (aka. Cash flow) minus tax pools = taxable income and taxable income x tax rate = income tax expense

In Canada, that tax rate typically ranges from 23 to 25 per cent, not an insignificant expense by any means.

At Gear we have discussed on many occasions all the activities we engage in to maximize cash flow and this can extend to taxation. Large and effective tax pools can maximize a company's after-tax cash flow and provide a material competitive advantage amongst peers.

There are two ways for oil and gas companies to generate tax pools:

1. Spend money on capital expenditures (usually by drilling oil and gas wells or investing in associated facilities and infrastructure). For every dollar that you invest in these capital projects, you generate a dollar in tax pools.

2. Acquire assets and/or other oil and gas companies. When you acquire an asset, you effectively get the equivalency in tax pools (albeit a poorer quality tax pool called Canadian oil and gas property expense ("COGPE"). When you acquire another oil and gas company, you effectively acquire all their tax pools as is. For instance, if Gear were to acquire company ABC which had $100 million in tax pools, Gear would assume $100 million in tax pools to add to its existing tax pools.

Historically, most oil and gas companies "reinvested" or "recycled" all cash flows generated back into the business. This meant that with annual capital expenditures that match or exceed annual cash flows, notwithstanding timing differences, most companies create sufficient tax pools to offset any income. As a result, income equals tax pools which meant that taxable income was effectively zero.

However, with Gear shifting to returning funds to its shareholders in the form of a monthly $0.01 per share dividend, we are now forecasting an annual return of approximately $31 million to our shareholders. This means that income (or cash flow) now exceeds capital expenditures and effective tax pools, thus potentially introducing income taxes to be paid. At Gear, we reported the following tax pools at year-end:

($ millions)	Dec. 31, 2022
Canadian oil and gas property expenses	116.5
Canadian development expenses ("CDE")	163.3
Canadian exploration expenses ("CEE")	28.4
Undepreciated capital cost ("UCC")	52.1
Non-capital losses ("NCL")	270.3
Estimated realizable tax pools	630.6

So, what do these numbers mean? Essentially, if Gear were to not make a single additional capital expenditure (ignoring timing differences), these tax pools would offset $630.6 million in future income or cash flow before Gear would have to pay taxes. On a simplistic level, if you used Gear's 2022 cash flow of $93.8 million as a basis, these tax pools would offset almost seven years of future income.

Interestingly, over 60 per cent of the $630.6 million of Gear tax pools were generated through the corporate acquisitions of Striker Exploration Corp. in 2016 and Steppe Resources Inc. in 2018.

So, what about these timing differences that were mentioned earlier? Essentially, not every tax pool is equal. The quicker you can use a tax pool, the greater its effectiveness. COGPE can only be used 10 per cent per year which makes it less effective. On the other hand, pools such as CEE or NCL are highly effective as they can be fully used at any given time. Almost half of Gear's tax pools at the end of 2022 consisted of these higher quality categories.

In conclusion, Gear has a strong tax position that should allow it to maximize after-tax cash flow for many years to come. This compares quite well to a public peer group where approximately 20 per cent of companies were already paying cash taxes in 2022.

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.