

# FINANCIAL AND OPERATIONAL HIGHLIGHTS



Three months ended

(Cdn\$ thousands, except per share, share and per boe amounts)	Mar 31, 2023	Mar 31, 2022	Dec 31, 2022
<b>FINANCIAL</b>			
Funds from operations <sup>(1)</sup>	13,012	18,782	18,676
Per boe	24.29	36.61	35.27
Per weighted average basic share	0.05	0.07	0.07
Cash flows from operating activities	14,933	15,340	18,565
Per boe	27.88	29.90	35.06
Per weighted average basic share	0.06	0.06	0.07
Net income	1,990	6,227	27,695
Per weighted average basic share	0.01	0.02	0.11
Capital expenditures	17,992	8,687	18,899
Decommissioning liabilities settled- Gear	441	912	1,417
Decommissioning liabilities settled- Government <sup>(2)</sup>	37	-	532
Net debt <sup>(1)</sup>	(15,276)	(6,706)	(2,220)
Dividends declared and paid	7,826	-	7,795
Dividends declared and paid per share	0.03	-	0.03
Weighted average shares, basic (thousands)	260,693	260,331	259,908
Shares outstanding, end of period (thousands)	261,212	260,759	260,693
<b>OPERATING</b>			
Production			
Heavy oil (bbl/d)	2,734	3,043	2,772
Light and medium oil (bbl/d)	2,045	1,580	1,835
Natural gas liquids (bbl/d)	292	269	299
Natural gas (mcf/d)	5,287	4,855	5,091
Total (boe/d)	5,952	5,701	5,755
Average prices			
Heavy oil (\$/bbl)	56.80	95.91	69.72
Light and medium oil (\$/bbl)	91.68	110.32	103.62
Natural gas liquids (\$/bbl)	50.69	63.88	58.48
Natural gas (\$/mcf)	3.13	4.64	5.11
Netback (\$/boe)			
Petroleum and natural gas sales	62.86	88.73	74.19
Royalties	(7.64)	(9.38)	(10.40)
Operating costs	(22.45)	(19.80)	(21.55)
Transportation costs	(4.25)	(3.43)	(4.03)
Operating netback <sup>(1)</sup>	28.52	56.12	38.21
Realized risk management gain (loss)	0.87	(14.11)	-
General and administrative	(4.36)	(4.83)	(2.62)
Interest and other	(0.74)	(0.57)	(0.32)

- (1) Funds from operations, net debt and operating netback do not have any standardized meanings under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other entities. For additional information related to these measures, including a reconciliation to the nearest GAAP measures, where applicable, see "Non-GAAP and Other Financial Measures" in Gear's management's discussion and analysis.
- (2) Decommissioning liabilities settled by the federal government's Site Rehabilitation Program, which ended during the first quarter of 2023.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is Gear Energy Ltd. ("Gear" or the "Company") management's analysis of its financial performance. It is dated May 3, 2023 and should be read in conjunction with the unaudited Interim Condensed Financial Statements as at and for the three months ended March 31, 2023 and the audited Consolidated Financial Statements as at and for the year ended December 31, 2022. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The MD&A contains non-generally accepted accounting principles ("GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Gear's disclosure under "Non-GAAP Measures" and "Forward-Looking Information and Statements" included at the end of this MD&A. All figures are in Canadian dollar thousands unless otherwise noted.

### ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with heavy and light oil production in Central Alberta, West Central Saskatchewan and Southeast Saskatchewan. Presently, Gear has 32 employees with 22 staff in the Calgary office and 10 employees located in Gear's operating areas in Alberta and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE and on the OTCQX under the symbol GENGF.

Gear is return-driven with a focus on delivering per share growth by pursuing assets with the following characteristics:

- Geographically focused
- Definable resource base with low risk production
- Repeatable projects that are statistically economic
- Multiple producing horizons
- Easy surface access and existing infrastructure
- High operatorship

Gear enhances returns of acquired assets by:

- Drilling and developing on acquired lands
- Focusing on operational and cost efficiencies
- Continually improving operations through innovation and imitation
- Adopting and refining advanced drilling and completing techniques
- Pursuing strategic acquisitions with significant potential synergies

### ECONOMIC ENVIRONMENT

Realized prices for the first quarter of 2023 for Gear were negatively impacted by a combination of lower West Texas Intermediate ("WTI") pricing, wider Canadian stream differentials, higher diluent costs, and a falling AECO natural gas price. This all translated to the lowest received price for Gear since the second quarter of 2021. Fortunately, the outlook for commodity prices for the remainder of 2023 appears more positive, with WTI expected to increase, Canadian stream differentials forecasted to be lower, and diluent costs expected to reduce due to falling condensate pricing relative to the first quarter of 2023. WTI pricing appears to be the most uncertain and volatile as a result of continued uncertainty around global demand offset against persistent concerns about global supply. Canadian stream differentials are expected to narrow as a result of the finalization of the TransMountain pipeline expansion which will add 590,000 barrels per day of export capacity out of Western Canada and the resolution of various unexpected refinery outages such as the Whiting Refinery. With low levels of debt and minimal oil hedges in place, Gear has positioned itself to capture higher oil prices for 2023 should they occur.

### 2023 GUIDANCE

Table 1

	2023 Revised Guidance	2023 Previous Guidance	Q1 2023 YTD Actuals
Annual production (boe/d)	5,800 – 6,000	6,100	5,952
Q1 2023 production (boe/d)		6,100	5,952
Heavy oil weighting (%)	48	48	46
Light oil, medium oil and NGLs weighting (%)	38	37	39
Royalty rate (%)	13	13	12
Operating and transportation costs (\$/boe)	25.00	23.00	26.70
General and administrative expense (\$/boe)	3.50	3.50	4.36
Interest and other expense (\$/boe)	0.80	0.30	0.74
Capital and abandonment expenditures (\$ millions) <sup>(1)</sup>	58	66	18

(1) Capital and abandonment expenditures includes decommissioning liability expenditures made by Gear and excludes any expenditures made by the federal government's Site Rehabilitation Program.

In light of ongoing commodity price volatility, Gear has strategically reduced its planned 2023 capital expenditures by 12 per cent to \$58 million, including well abandonments. The optimized budget now includes 15 (14.5 net) wells across all three core areas. The reduced well count reflects a higher weighting to light oil opportunities than was planned with the original budget released in November of 2022. The current budget includes one medium oil well in Provost, Alberta (successfully drilled in Q1), four heavy oil wells in Hoosier, Saskatchewan (two successfully drilled in Q1, with two

follow-ups planned in Q3/Q4), six multi-lateral heavy oil wells in the general Lloydminster area (one successfully drilled in Q1), two light oil wells in Wilson Creek, Alberta and two light oil wells in Tableland, Saskatchewan. This compares to the original budget of 22 net wells with six of those originally planned in the first quarter of 2023. Annual production guidance has now been reduced by approximately three per cent to range from 5,800 to 6,000 boe per day due to the reduced drill count to date (and go forward) as well as ongoing capacity limitations at Gear's Killam medium oil facility and an unplanned third-party infrastructure turnaround now expected in Central Alberta in the second quarter of 2023.

Total drill capital is now forecast to be \$40 million, with an additional \$7 million invested in waterfloods in Wilson Creek, Tableland and Wildmere, \$6 million invested in abandonment and reclamation activities and the remaining capital dedicated to land, seismic, and other corporate costs. Within the revised guidance there are some associated increases in per unit costs related to the lower annual volumes, continued inflationary pressures and the weaker forecasted commodity prices under the current forward strip.

## METRICS

Gear measures its performance on its ability to grow value on a debt adjusted per share basis. Table 2 details funds from operations, cash flows from operating activities and production per debt adjusted share:

**Table 2**

	Mar 31, 2023	Three months ended		
		Mar 31, 2022	% Change	Dec 31, 2022
Funds from operations per debt adjusted share <sup>(1)</sup>	<b>0.048</b>	0.070	(31)	0.072
Cash flows from operating activities per debt adjusted share <sup>(1)</sup>	<b>0.055</b>	0.057	(4)	0.072
Production, boepd per debt adjusted thousand shares <sup>(1)</sup>	<b>0.022</b>	0.021	5	0.022

(1) Funds from operations per debt adjusted share, cash flows from operating activities per debt adjusted share and production boepd per debt adjusted thousand shares are non-GAAP and other financial measures and are reconciled to the nearest GAAP measure, where applicable, under the heading "Non-GAAP and Other Financial Measures". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.

## 2023 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

### Funds from Operations and Cash Flows from Operating Activities

Funds from operations decreased from \$18.8 million or \$36.61 per boe in the first quarter of 2022 to \$13.0 million or \$24.29 per boe in the first quarter of 2023. The decrease in funds from operations are the result of decreased revenues due to lower realized commodity prices, increased operating and transportation costs and interest and other costs, partially offset by increased sales volumes, decreased royalties and general and administrative costs and gains on risk management contracts.

The following table details the change in funds from operations for 2023 relative to 2022:

**Table 3**

	Three months ended Mar 31	
	\$ thousands	\$/boe
<b>Q1 2022 Funds from operations <sup>(1)</sup></b>	18,782	36.61
Volume variance	2,008	-
Price variance	(13,857)	(25.87)
Risk management contracts	7,705	14.98
Royalties	724	1.74
Expenses:		
Operating and transportation	(2,387)	(3.47)
General and administrative	142	0.47
Interest and other	(105)	(0.17)
<b>Q1 2023 Funds from operations <sup>(1)</sup></b>	13,012	24.29

(1) Funds from operations is a non-GAAP financial measure and is reconciled to the nearest GAAP measure under the heading "Non-GAAP and Other Financial Measures". Such measure does not have a standardized meaning under GAAP and therefore may not be comparable to similar measures presented by other entities.

Cash flows from operating activities decreased from \$15.3 million or \$29.90 per boe in the first quarter of 2022 to \$14.9 million or \$27.88 per boe in the first quarter of 2023. The decrease in cash flows from operating activities are the result of decreased revenues due to lower realized commodity prices, increased operating and transportation costs and interest and other costs, partially offset by increased sales volumes, decreased royalties and general and administrative costs, gains on risk management contracts and decreased decommissioning liabilities settled by Gear.

### Net income

Gear generated net income of \$2.0 million for the three months ended March 31, 2023, compared to a net income of \$6.2 million for same period in 2022. The change in net income is due to several factors discussed below. Net income for the fourth quarter of 2022 was \$27.7 million. The decrease in net income from the fourth quarter of 2022 was mainly due to an impairment reversal and the recognition of a deferred tax asset recorded in the fourth quarter of 2022.

## Production

For the first quarter of 2023, sales production volumes averaged 5,952 boe per day, a four per cent increase compared to 5,701 boe per day in the same period in 2022. In the first quarter of 2023, Gear drilled 4 gross (4 net) wells, of which all were brought on production during the period. The original budget estimated 6 wells to be drilled during the first quarter, however considering extreme price volatility and the dynamic inflationary environment, the decision was made to release the rig in late February prior to drilling the last two wells.

The two light oil wells drilled in Tableland, Saskatchewan which were drilled during the fourth quarter of 2022 were completed and came on stream with volumes as expected during the first quarter of 2023. Additionally, the four medium oil wells that were drilled in Killam, Alberta in the fourth quarter of 2022 were brought on production during the first quarter of 2023. The Killam wells appear capable of delivering volumes as expected, however a facility limitation has restricted total field production below the budgeted amount. Work is ongoing to remove these restrictions. Sales production volumes increased in the first quarter of 2023 compared to the same period in 2022 mainly due to the production from new wells drilled, partially offset by natural well declines on Gear's base production.

In 2021, Gear tied into a third-party gas conservation system in Tableland, resulting in the conservation of previously flared gas. This allowed Gear to sell natural gas and natural gas liquids which contributed 211 boe per day during the quarter ended March 31, 2023 and 138 boe per day in the first quarter of 2022. This gas conservation system contributed 220 boe per day in the fourth quarter of 2022 and 165 boe per day for the full year 2022. Gear's revenue associated with this incremental production will be offset by a transportation fee until the total commitment is extinguished later in 2023.

Sales production volumes in the fourth quarter of 2022 averaged 5,755 boe per day. The increase in sales production volumes since the fourth quarter of 2022 was mainly due to production from new wells drilled and improved weather conditions from the previous quarter, partially offset by natural well declines on Gear's base production.

Gear has adjusted guidance for 2023 to range from 5,800 to 6,000 boe per day.

Gear had an inventory draw of approximately 4,700 barrels in the first quarter of 2023 over the fourth quarter of 2022. As at March 31, 2023, Gear had approximately 138 thousand barrels of oil in inventory.

**Table 4**

Production	Three months ended			Dec 31, 2022
	Mar 31, 2023	Mar 31, 2022	% Change	
Liquids (bbl/d)				
Heavy oil (bbl/d)	2,734	3,043	(10)	2,772
Light and medium oil (bbl/d)	2,045	1,580	29	1,835
Natural gas liquids (bbl/d)	292	269	9	299
Total liquids (bbl/d)	5,071	4,892	4	4,906
Natural gas (mcf/d)	5,287	4,855	9	5,091
Total production (boe/d) <sup>(1)</sup>	5,952	5,701	4	5,755
% Liquids production	85	86	(1)	85
% Natural gas production	15	14	7	15

(1) Reported production for a period may include minor adjustments from previous production periods.

## Petroleum and natural gas sales

Sales of crude oil, natural gas and natural gas liquids for the first quarter of 2023 totaled \$33.7 million compared to first quarter 2022 sales of \$45.5 million and fourth quarter 2022 sales of \$39.3 million. These decreases are the result of lower realized commodity prices, partially offset by higher production volumes.

A breakdown of sales by product is outlined in Table 5:

**Table 5**

Sales by product (\$ thousands)	Three months ended			Dec 31, 2022
	Mar 31, 2023	Mar 31, 2022	% Change	
Heavy oil	13,977	26,265	(47)	17,783
Light and medium oil	16,879	15,684	8	17,492
Natural gas liquids	1,331	1,548	(14)	1,608
Natural gas	1,488	2,027	(27)	2,395
Total petroleum and natural gas sales	33,675	45,524	(26)	39,278

## Commodity Prices

**Table 6**

Average benchmark prices	Three months ended			
	Mar 31, 2023	Mar 31, 2022	% Change	Dec 31, 2022
WTI oil (US\$/bbl) <sup>(1)</sup>	76.13	94.29	(19)	82.65
WCS heavy oil (Cdn\$/bbl) <sup>(2)</sup>	69.43	101.00	(31)	77.71
Canadian Light Sweet <sup>(3)</sup> (Cdn\$/bbl)	99.03	115.66	(14)	110.04
LSB (Cdn\$/bbl) <sup>(4)</sup>	94.03	114.40	(18)	105.99
AECO natural gas (\$/mcf) <sup>(5)</sup>	3.21	4.73	(32)	5.07
Cdn\$ / US\$ exchange rate	1.35	1.27	6	1.36
<b>Gear realized prices</b>				
Heavy oil (\$/bbl)	56.80	95.91	(41)	69.72
Light and medium oil (\$/bbl)	91.68	110.32	(17)	103.62
Natural gas liquids (\$/bbl)	50.69	63.88	(21)	58.48
Natural gas (\$/mcf)	3.13	4.64	(33)	5.11
Realized price before risk management contracts (\$/boe)	62.86	88.73	(29)	74.19
Realized risk management gain (loss) (\$/boe)	0.87	(14.11)	(106)	-
Realized price after risk management contracts (\$/boe)	63.73	74.62	(15)	74.19

(1) WTI represents the posting price of West Texas Intermediate oil.

(2) WCS represents the average market price for the benchmark Western Canadian Select for Gear's heavy oil.

(3) Represents the Canadian Light Sweet oil index for Gear's Alberta light oil.

(4) LSB represents the Light Sour Blend oil index for Gear's Southeast Saskatchewan light oil.

(5) Represents the AECO 5a monthly index.

For the first quarter of 2023, US denominated WTI prices decreased by 19 per cent from US\$94.29 per barrel to US\$76.13 per barrel over the same period in 2022, with the WCS and LSB differentials widening and the Canadian Light Sweet differential narrowing. As a result of these pricing movements, Gear's realized pricing decreased from \$88.73 per boe to \$62.86 per boe.

When comparing to the fourth quarter of 2022, US denominated WTI prices decreased by 8 per cent from US\$82.65 per barrel to US\$76.13 per barrel, with the WCS differential narrowing and the Canadian Light Sweet and LSB differentials widening. Although WCS differentials narrowed, overall heavy oil realized pricing was significantly impacted by an above average price of diluent. Additionally, Gear was unable to transport its Saskatchewan heavy oil by rail. As a result of a change in sales point, the Saskatchewan volumes were also impacted by the higher cost of diluent. These pricing movements resulted in a decrease in Gear's realized pricing from \$74.19 per boe to \$62.86 per boe.

### Royalties

For the first quarter of 2023, royalties as a percentage of commodity sales were 12.1 per cent compared to 10.6 per cent for the same period in 2022. Over the last year, as revenues have increased, a greater portion of pre-existing wells reached higher royalty tiers. The increase was also due to the sale of oil inventory during the first quarter of 2023 which at the time, was produced at a higher price than when it was sold and as a result carried a higher associated royalty burden as a percentage of revenue.

Royalties as a percentage of commodity sales decreased from 14.0 per cent for the fourth quarter of 2022 to 12.1 per cent for the first quarter of 2023 due to the decrease in commodity prices.

**Table 7**

Royalty expense (\$ thousands except % and per boe)	Three months ended			
	Mar 31, 2023	Mar 31, 2022	% Change	Dec 31, 2022
Royalty expense	4,091	4,815	(15)	5,504
Royalty expense as a % of sales	12.1	10.6	14	14.0
Royalty expense per boe	7.64	9.38	(19)	10.40

### Operating and Transportation Expenses

Operating costs for the first quarter of 2023 were \$22.45 per boe compared to \$19.80 per boe for the same period in 2022. This increase is mainly the result of general inflationary pressures on the business, as well as higher maintenance and well servicing costs incurred during the first quarter of 2023. Operating costs increased from \$21.55 per boe for the previous quarter to \$22.45 per boe for the first quarter of 2023. This increase is mainly the result of increased labour costs and increases in carbon taxes and property taxes.

Transportation expenses for the first quarter of 2023 was \$4.25 per boe, an increase compared to \$3.43 per boe for the first quarter of 2022 and \$4.03 per boe for the previous quarter.

In 2021, Gear tied production into a newly constructed third-party gas gathering system and Gear's revenue associated with this incremental production in southeast Saskatchewan will be offset by a transportation fee until the total commitment is extinguished later in 2023. During the first quarter of 2023, the gas gathering system produced 211 boe per day of natural gas and natural liquids, offset by \$0.5 million or \$0.87 per boe, of transportation fees associated with this system. During the first quarter of 2022, the gas gathering system produced 138 boe per day of natural gas and natural liquids, offset by \$0.4 million or \$0.80 per boe, of transportation fees associated with this system. During the previous period, the gas gathering system produced 220 boe per day of natural gas and natural liquids, offset by \$0.9 million or \$1.62 per boe, of transportation fees associated with this system. For further information see below, under the heading "Contractual Obligations and Commitments".

Excluding the impact of the gas gathering system, transportation expenses for the first quarter of 2023 were \$3.38 per boe compared to \$2.63 per boe for the same period in 2022 and \$2.41 per boe for the previous quarter. These increases are mainly due to inflationary pressures in the form of fuel surcharges from trucking companies as well as a change in sales point for Gear's Saskatchewan heavy oil. During the first quarter of 2023, Gear was unable to transport its Saskatchewan heavy oil by rail and was forced to change sales points.

Table 8 below summarizes the operating and transportation expenses:

**Table 8**

Operating and Transportation expenses (\$ thousands except per boe)	Three months ended			
	Mar 31, 2023	Mar 31, 2022	% Change	Dec 31, 2022
Operating expense	12,029	10,159	18	11,411
Transportation expense	2,279	1,762	29	2,132
Operating and transportation expense	14,308	11,921	20	13,543
Operating expense per boe	22.45	19.80	13	21.55
Transportation expense per boe	4.25	3.43	24	4.03
Operating and transportation expense per boe	26.70	23.23	15	25.58

Table 9 below is a breakdown of transportation expenses:

**Table 9**

Transportation expenses (\$ thousands except per boe)	Three months ended			
	Mar 31, 2023	Mar 31, 2022	% Change	Dec 31, 2022
Transportation - commitment	469	410	14	859
Transportation	1,810	1,352	34	1,273
Transportation expense	2,279	1,762	29	2,132
Transportation per boe - commitment	0.87	0.80	9	1.62
Transportation per boe	3.38	2.63	29	2.41
Transportation expense per boe	4.25	3.43	24	4.03

### Operating Netbacks

Gear's operating netback prior to risk management contracts were \$28.52 per boe for the first quarter of 2023 compared to \$56.12 per boe for the same period in 2022 and \$38.21 per boe for the previous period. The decreases in operating netbacks were primarily the result of decreased commodity prices and higher operating and transportation costs, partially offset by lower royalties.

The components of operating netbacks are summarized in Table 10:

**Table 10**

Operating netback (\$ per boe)	Three months ended			
	Mar 31, 2023	Mar 31, 2022	% Change	Dec 31, 2022
Sales	62.86	88.73	(29)	74.19
Royalties	(7.64)	(9.38)	(19)	(10.40)
Operating costs	(22.45)	(19.80)	13	(21.55)
Transportation costs	(4.25)	(3.43)	24	(4.03)
Operating netback <sup>(1)</sup>	28.52	56.12	(49)	38.21

(1) Operating netback is a non-GAAP ratio and is described under the heading "Non-GAAP and Other Financial Measures" below. Operating netback does not have a standardized meaning under GAAP and therefore may not be comparable to similar measures presented by other entities.

### General and Administrative ("G&A") Expenses and Share-based Compensation ("SBC")

G&A expenses for the first quarter of 2023 totaled \$2.3 million compared to \$2.5 million for the same period in 2022. The majority of the decrease relates to higher performance bonuses declared and paid in the first quarter of 2022 compared to the first quarter of 2023. G&A expenses for the first quarter of 2023 totaled \$2.3 million compared to \$1.4 million for the previous quarter. The majority of the increase relates to 2022 performance bonuses declared and paid in

the first quarter of 2023. Gear capitalized \$0.7 million of G&A compared to \$0.8 million for the same period in 2022 and \$0.3 million for the previous quarter. The fluctuations in capitalized G&A are a result of movements related to the performance bonuses declared during the first quarter of 2022 and 2023. G&A on a per boe basis was \$4.36 per boe compared to \$4.83 per boe for the same period in 2022 and \$2.62 per boe for the previous quarter.

Table 11 is a breakdown of G&A and SBC expense:

**Table 11**

<b>G&amp;A and SBC expense</b> (\$ thousands except per boe)	<b>Mar 31, 2023</b>	Three months ended		
		Mar 31, 2022	% Change	Dec 31, 2022
G&A, before recoveries and capitalized G&A	<b>3,125</b>	3,391	(8)	1,804
Overhead recoveries	<b>(67)</b>	(79)	(15)	(82)
Capitalized G&A	<b>(723)</b>	(835)	(13)	(334)
<b>G&amp;A</b>	<b>2,335</b>	2,477	(6)	1,388
SBC expense	<b>325</b>	204	59	320
G&A per boe	<b>4.36</b>	4.83	(10)	2.62
SBC expense per boe	<b>0.61</b>	0.40	53	0.60

SBC is related to the granting of stock options. There were 1.1 million options granted during the first quarter of 2023 at an average exercise price of \$1.09. In addition, 0.4 million options were forfeited at an average exercise price of \$1.04, 0.1 million options expired at an average exercise price of \$1.43 and 1.2 million options were exercised at an average exercise price of \$0.63. As at March 31, 2023 a total of 16.3 million options with a weighted average exercise price of \$1.02 per share were outstanding, representing approximately 6.2 per cent of the 261.2 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2022 a total of 16.9 million options were outstanding. For further information on Gear's stock options, see the notes to the unaudited Interim Condensed Consolidated Financial Statements. At the date of this MD&A, Gear had a total of 15.8 million options outstanding at a weighted average exercise price of \$1.04 per share.

#### **Interest and Other**

In the first quarter of 2023, interest and other totaled \$0.4 million, an increase compared to \$0.3 million in the same period of 2022 and \$0.2 million in the previous quarter. Gear's interest rate on its Credit Facilities (as defined herein) is dependent on its facilities borrowings, inclusive of working capital, in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion ("Senior Debt to EBITDA Ratio") on a rolling six month period. The increase in interest and financing charges is due to an increase in Gear's debt balance during the three months period ended March 31, 2023.

Table 12 is a breakdown of interest and other:

**Table 12**

<b>Interest and other</b> (\$ thousands except per boe)	<b>Mar 31, 2023</b>	Three months ended		
		Mar 31, 2022	% Change	Dec 31, 2022
Interest expense	<b>299</b>	235	27	60
Financing charges	<b>37</b>	34	9	37
Standby fees	<b>55</b>	38	45	79
Realized loss (gain) on foreign exchange	<b>3</b>	(18)	(117)	(9)
<b>Interest and other</b>	<b>394</b>	289	36	167
<b>Interest and other per boe</b>	<b>0.74</b>	0.57	30	0.32

#### **Risk Management Contracts**

Gear has a mandate to protect its balance sheet and capital program for the current and upcoming year by reducing fluctuations in both its funds from operations and assigned borrowing base on its Credit Facilities. To do this, Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. Gear has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting. Gear has completed all 2023 bank mandated hedging requirements as specified by its credit agreement. Management continues to evaluate its risk and the management thereof and will continue to monitor the commodities market for further future risk management contracts.

For the first quarter of 2023, Gear realized gains on risk management contracts of \$0.5 million compared to losses of \$7.2 million for the same period in 2022 and \$nil for the previous quarter. The fair value of all outstanding contracts at March 31, 2023 was an asset of \$1.5 million.

Table 13 summarizes Gear's financial risk management contracts as at March 31, 2023:

**Table 13**

<b>Financial WTI crude oil contracts</b>								
Term		Contract	Currency	Volume bbl/d	Sold Swap \$/bbl	Sold Call \$/bbl	Bought Put \$/bbl	Sold Put \$/bbl
Apr 1, 2023	Dec 31, 2023	Three-way collar	CAD	750	-	113.50	80.00	65.00

  

<b>Financial AECO natural gas contracts</b>					
Term		Contract	Currency	Volume GJ/d	Sold Swap \$/GJ
Apr 1, 2023	Dec 31, 2023	Swap	CAD	3,600	4.50

**Impairment and Depletion, Depreciation and Amortization Expense ("DD&A")**

DD&A during the first quarter of 2023 was \$19.72 per boe, compared to \$18.84 per boe for the same period in 2022 and \$18.25 per boe for the previous quarter. These increases in the DD&A rate are mainly the result of the impact of the impairment reversal at December 31, 2022 which increased Gear's depletable base. Depletion is recorded net of government spending. During the first quarter of 2023, \$37 thousand in abandonment expenditures were funded by the government. The government provided Gear \$nil towards extinguishing decommissioning liabilities for the first quarter of 2022 and \$0.5 million for the fourth quarter of 2022.

As at March 31, 2023, no indicators of impairment or impairment reversal were identified. As at December 31, 2022, indicators of an impairment reversal were identified on Gear's Cash-Generating Unit ("CGU") #3 as a result of the increase in commodity prices. An impairment test was carried out at December 31, 2022 on CGU #3. The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable crude oil and natural gas reserves of CGU #3 based on reserves estimated by Gear's independent reserves evaluator at December 31, 2022. As at December 31, 2022, the estimated recoverable amount for CGU #3 was based on a fair value less cost of disposal calculation using a discount rate based on an estimated industry weighted average cost of capital of 12 per cent. As a result of the impairment test performed at December 31, 2022, the recoverable amount of CGU #3 exceeded its carrying value, and a \$10.0 million impairment reversal, net of depletion, was recorded in the Consolidated Statements of Income and Comprehensive Income. For additional information see Note 4 "Property, Plant and Equipment and Impairment" in the notes to the Interim Condensed Consolidated Financial Statements. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

As at March 31, 2023 and December 31, 2022, Gear recorded oil inventory valued at its production cost. No impairments on inventory were recorded in 2022 or the first quarter of 2023.

Table 14 is a breakdown of DD&A expenses and impairment:

<b>DD&amp;A rate</b> (\$ thousands except per boe)	<b>Table 14</b>			
	<b>Mar 31, 2023</b>	Three months ended		<b>Dec 31, 2022</b>
		Mar 31, 2022	% Change	
DD&A	<b>10,563</b>	9,668	9	9,663
Total DD&A rate per boe	<b>19.72</b>	18.84	5	18.25
Impairment reversal	-	-	-	(10,023)

**Taxes**

Deferred income tax assets on the Consolidated Balance Sheet are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable based on current tax pools and estimated future taxable income. As at March 31, 2023 and December 31, 2022, a deferred tax asset in the amount of \$41.1 million was recognized, and \$58.3 million remains unrecognized, as management did not find it probable that the benefit will be realized. Included in this tax basis are estimated non-capital loss carry forwards that expire in the years 2027 through 2042. No cash income taxes were paid in 2023 and 2022.

At March 31, 2023, Gear's estimated tax pools were relatively unchanged from the \$630.6 million as at December 31, 2022.

**Capital Expenditures**

Capital expenditures for the first quarter of 2023 were \$18.0 million compared to \$8.7 million in the same period in 2022 and \$18.9 million in the previous quarter. During the first quarter of 2023, Gear drilled four gross (four net) oil wells, with one unlined multi-lateral medium oil well in Provost, Alberta, two multi-stage fractured heavy oil wells in Hoosier, Saskatchewan, and one unlined multi-lateral heavy oil well in Wildmere, Alberta. In the original 2023 budget, Gear had budgeted to drill five gross (five net) wells. Due to inflationary pressures, two wells were deferred to later in 2023. Gear will continue to monitor the impacts of inflation. The two wells drilled in Tableland, Saskatchewan at the end of 2022



were completed and producing in the first quarter of 2023. During the first quarter of 2023, Gear continued to invest in the waterflood expansion in Maidstone, Saskatchewan and also initiated waterfloods in Tableland, Saskatchewan and Provost, Alberta.

A breakdown of capital expenditures is shown in Table 15:

**Table 15**

Capital expenditures (\$ thousands)	Three months ended			
	Mar 31, 2023	Mar 31, 2022	% Change	Dec 31, 2022
Drilling and completions	11,858	6,628	79	14,064
Production equipment and facilities	5,669	1,882	201	4,248
Geological and geophysical	129	24	438	145
Undeveloped land	298	113	164	399
Other	38	40	(5)	43
<b>Total capital expenditures</b>	<b>17,992</b>	<b>8,687</b>	<b>107</b>	<b>18,899</b>

### Decommissioning Liability

At March 31, 2023, Gear recorded a decommissioning liability of \$75.5 million (\$71.4 million at December 31, 2022) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The liability has been inflated at 2.00 per cent (2.00 per cent at December 31, 2022) and discounted using a risk free rate of 3.02 per cent (3.28 per cent at December 31, 2022). Some of the decommissioning cost estimates are derived from third party government sources and can fluctuate from time to time. The increase in liability is mainly the result of the decrease in the discount factor, increase in cost estimates and new wells drilled by Gear, partially offset by abandonment activity performed by both Gear and government bodies during the period. Decommissioning liabilities settled by Gear in the first quarter of 2023 were \$0.4 million.

In 2020, the federal government announced that as part of its COVID-19 Economic Response Plan that it would provide \$1.7 billion to clean up orphan and inactive wells in Alberta, Saskatchewan and British Columbia under a Site Rehabilitation Program ("SRP"). Gear was approved for a total cumulative funding of \$5.2 million. A portion of the funding in Alberta came as a 50 per cent cost reimbursement for Gear's area-based closure in the Wildmere area. During the first quarter of 2023, as a result of combined efforts of both Gear and the SRP, the combined \$0.5 million of decommissioning expenditures allowed Gear to downhole abandon 9 gross (9 net) wells in Alberta and cut and cap 1 gross (0.5 net) well and downhole abandon 1 gross (0.5 net) well in Saskatchewan. No wells were cut and capped in Alberta during the first quarter of 2023. Gear's SRP spending per Provincial jurisdiction during the period ended March 31, 2023 included \$37 thousand in Saskatchewan. Funding under the SRP is now complete.

### Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 16:

**Table 16**

Debt (\$ thousands except ratio amounts)	Mar 31, 2023	Dec 31, 2022
Net debt <sup>(1)</sup>	(15,276)	(2,220)
Net debt to trailing twelve-month funds from operations <sup>(1)</sup>	0.2	0.0
Net debt to quarterly annualized funds from operations <sup>(1)</sup>	0.3	0.0
Common shares outstanding	261,212	260,693

(1) Net debt, net debt to trailing twelve-month funds from operations and net debt to quarterly annualized funds from operations are non-GAAP and other financial measures and are reconciled to the nearest GAAP measure, where applicable, under the heading "Non-GAAP and Other Financial Measures". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.

Gear continues to maintain minimal net debt to trailing twelve-month funds from operations as at March 31, 2023. Net debt increased from \$2.2 million at December 31, 2022 to \$15.3 million at March 31, 2023. This increase is the result of an additional \$13.6 million draw on Gear's Credit Facilities. At times, Gear will incur debt as a result of the timing of capital expenditures. Gear anticipates net debt to decline through the second quarter of 2023 as a result of improving commodity prices as well as significantly less capital investment due to spring break up.

### Credit Facilities

Gear presently has credit facilities consisting of a \$34.5 million revolving credit facility and a \$7.5 million operating facility (the "Credit Facilities").

Table 17 shows a breakdown of Gear's Credit Facilities:

**Table 17**

Facility (\$ millions)	Borrowing base		Maturity Date
	Mar 31, 2023	Dec 31, 2022	
Revolving	34.5	34.5	May 25, 2024
Operating	7.5	7.5	May 25, 2024
Total	42.0	42.0	

At March 31, 2023 Gear had \$20.7 million drawn on the Credit Facilities (December 31, 2022 – \$7.1 million) and outstanding letters of credit of \$0.9 million (December 31, 2022 – \$0.9 million). At March 31, 2023 and December 31, 2022, Gear's debt was classified as long term. The Credit Facilities do not carry any financial covenants. Gear has an outstanding letter of credit with a counterparty separate from the Credit Facilities for \$0.8 million (December 31, 2022 - \$nil).

The total stamping fees on the operating facility and revolving facility range, depend on Gear's Senior Debt to EBITDA Ratio, and range between 200 bps to 400 bps on Canadian bank prime borrowings and between 300 bps and 500 bps on US dollar denominated SOFR loans and Canadian dollar bankers' acceptances. The undrawn portion of the operating facility and revolving facility is subject to a standby fee in the range of 75 bps to 125 bps.

Gear's Credit Facilities are periodically reviewed by its lenders through scheduled borrowing base reviews at which time the borrowing base of such facilities can be adjusted. The next borrowing base review is expected to be completed on or about May 31, 2023.

#### Shareholders' Equity

On May 4, 2022, Gear announced the approval of its Normal Course Issuer Bid ("NCIB") by the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase for cancellation up to approximately 24.0 million of its outstanding common shares commencing on May 9, 2022, continuing until May 8, 2023, when the bid expires, or such earlier date on which Gear has either acquired the maximum number of common shares allowable under the NCIB or otherwise decides not to make any further repurchases under the NCIB. Purchases are made on the open market through the TSX or alternative Canadian trading platforms at the prevailing market price of such common shares at the time of purchase. When the Company repurchases its own common shares, share capital is reduced by the average carrying value of the shares repurchased. When the carrying value exceeds the purchase price the excess is credited to contributed surplus or conversely the excess of the purchase price over the carrying value is recognized as a deduction from retained earnings. The Company did not repurchase common shares during the quarter ended March 31, 2023 and does not expect to repurchase any more shares for the duration of the NCIB program as it dedicates funds to both its dividend and its capital program. For the year ended December 31, 2022, 3.6 million common shares were repurchased at an average cost of \$1.45 per share.

As at March 31, 2023, Gear had 261.2 million common shares outstanding. The increase since December 31, 2022, is due to stock option exercises during the first quarter of 2023. At December 31, 2022, Gear had 260.7 million common shares outstanding. At the date of this MD&A, Gear had 261.6 million shares outstanding.

Table 18 shows Gear's trading statistics:

**Table 18**

Trading statistics (\$ based on intra-day trading)	Mar 31, 2023	Three months ended	
		Mar 31, 2022	Dec 31, 2022
High	1.17	1.94	1.45
Low	0.90	0.90	0.99
Close	1.03	1.60	1.13
Average daily volume (thousands)	3,124	4,859	3,149

As at March 31, 2023, a total of 16.3 million options were outstanding with a weighted average exercise price of \$1.02 per share and each option entitling the holder to acquire one Gear common share. At the date of this MD&A, Gear had 15.8 million options outstanding at a weighted average exercise price of \$1.04 per share. Subsequent to March 31, 2023, 0.6 million options were exercised.

## Dividends

Table 19 shows a breakdown of Gear's dividends for the first quarter of 2023 and the year ended December 31, 2022:

**Table 19**

Declaration date	Record date	Payment date	Dividends per common share	Dividends (\$ thousands)
May 4, 2022	May 16, 2022	May 30, 2022	\$ 0.01	\$ 2,610
July 27, 2022	August 15, 2022	August 31, 2022	0.02	5,164
September 1, 2022	September 15, 2022	September 30, 2022	0.01	2,587
October 3, 2022	October 17, 2022	October 31, 2022	0.01	2,597
November 1, 2022	November 15, 2022	November 30, 2022	0.01	2,597
December 1, 2022	December 15, 2022	December 30, 2022	0.01	2,601
Total for the year ended December 31, 2022				\$ 18,156

  

Declaration date	Record date	Payment date	Dividends per common share	Dividends (\$ thousands)
January 3, 2023	January 16, 2023	January 31, 2023	\$ 0.01	\$ 2,607
February 1, 2023	February 15, 2023	February 28, 2023	0.01	2,607
March 1, 2023	March 15, 2023	March 31, 2023	0.01	2,612
Total for the three months ended March 31, 2023				\$ 7,826

During the first quarter of 2023, Gear approved and declared \$7.8 million in dividends compared to \$nil for the same period in 2022. For the year ended December 31, 2022, Gear approved and declared \$18.2 million in dividends.

Subsequent to period end, on April 3, 2023, the Board of Directors of Gear (the "Board") approved and declared a monthly dividend of \$0.01 per common share, designated as an eligible dividend, payable in cash to shareholders of record on April 14, 2023. The dividend payment date was April 28, 2023.

Subsequent to period end, on May 1, 2023, the Board approved and declared a monthly dividend of \$0.01 per common share, designated as an eligible dividend, payable in cash to shareholders of record on May 15, 2023. The dividend payment date is scheduled for May 31, 2023.

## Environmental, Social, and Governance Initiatives Impacting Gear

### *Environmental*

Gear has a track record of investing in the environment that started with the installation of a large-scale fuel system to capture vented natural gas in Wildmere back in 2010. Since that time, Gear has continued to expand those fuel systems across many of the assets to both conserve and reduce vented natural gas on our major properties. Additionally, Gear has expanded and continues to expand participation in programs designed to reduce methane emissions through a number of initiatives including replacing high bleed pneumatic controllers with low and zero bleed controllers, installing vapor recovery units to capture tank vent gas, installing instrument air instead of utilizing natural gas and utilizing electricity where possible. Most recently in Southeast Saskatchewan, Gear completed a project with a third party to implement a significant flaring and emissions reduction system.

In almost all areas, Gear has been accessing reservoirs using multi-well pad and multi-leg horizontal drilling designs, materially reducing the surface footprint required to access resources. Similarly, Gear has been implementing, optimizing, and expanding water flooding projects in multiple core areas. These water floods allow Gear to efficiently access incremental resources that would be left behind under primary recovery without expanding surface footprints.

Significant effort continues to be focused on the abandonment and reclamation of inactive wells. The forecast for 2023 is to abandon over 120 wells. Through the course of 2022, Gear abandoned over six times as many wells as drilled over the same period. During the quarter, Gear downhole abandoned 9 gross (9 net) wells in Alberta and cut and capped 1 gross (0.5 net) well and downhole abandoned 1 gross (0.5 net) well in Saskatchewan. No wells were cut and capped in Alberta during the first quarter of 2023.

### *Social*

Health and safety have always been prioritized to ensure the well-being of all stakeholders while successfully growing the tangible value of Gear's assets. Safety for Gear's workforce including contractors is paramount. Gear hosts monthly safety meetings for its field staff to review all safety protocols, engage in significant training, utilize standardized procedures and perform regular competency assessments. Over the last three years, Gear has had zero lost time injuries and zero recordable injuries.

Gear provides material investment in and assistance to the communities where Gear operates. Gear also believes that its main objective is to generate value creation for its shareholders so that they can, if they so choose, provide a return

to society as well. Additionally, Gear supports its employees as they regularly contribute both personal resources and time to enhancing communities through various corporate and employee initiatives.

#### Governance

Gear's outstanding teams operate in an environment of honesty, integrity and accountability. Related corporate policies and guidelines are included in the Code of Business Conduct & Ethics, the Whistleblower Policy, the Governance, Compensation and Sustainability Committee Mandate and the Mandate of the Board. All these documents are posted on the Gear website at <https://gearenergy.com/governance/>. These documents, among others, including the Board and Management Diversity and Renewal Policy, outline Gear's commitment to multiple matters including compliance with all regulatory and environmental laws, valuing diversity and a commitment to providing equal opportunity in all aspects of employment, and oversight of all facets of the company's environmental, health and safety protocols.

Gear prides itself on high governance standards. These standards include:

Shareholder alignment to management and director compensation	Gear conducts an extensive annual compensation benchmarking analysis. Its management team has one of the lower base salary structures amongst its peers and its incentive compensation structure is based on multiple performance factors including a proved developed reserves value creation formula as well as relative share price returns.
Full, clear, and truthful disclosure	Gear reports its quarterly information on a timely basis in a format that is full and clear. In addition, Gear publishes a monthly President's letter that attempts to deal with current matters that are pertinent to Gear and its business.
Board independence	All of Gear's Board members, with the exception of Ingram Gillmore, Chief Executive Officer, are independent. On an annual basis, all directors participate in an annual evaluation process.

#### Contractual Obligations and Commitments

Gear has contractual obligations in the normal course of operations including purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact Gear's funds from operations in an ongoing manner. Gear also has contractual obligations and commitments that are of a less routine nature as disclosed in its Consolidated Financial Statements.

In addition to the Credit Facilities, as at March 31, 2023, Gear had the following contractual commitments:

- lease agreements for its head office and its two field offices;
- one service commitment; and
- one transportation commitment

Lease agreements for Gear's head and field offices are effective until July 31, 2025. The remaining commitment for these lease agreements is \$1.1 million. The service commitment relates to a software agreement that expires in 2026 with a remaining commitment of \$0.7 million. The transportation commitment relates to an agreement with a mid-stream company. The original transportation commitment had an annual base commitment of \$0.4 million until 2030, or until the total transportation commitment is extinguished as fees paid in excess of the annual base amounts are applied to the outstanding contract balance. As at March 31, 2023, Gear will pay an escalated transportation fee until the total transportation commitment is extinguished later in 2023. Project costs have come in lower than expected and the commitment is decreasing faster than expected due to increased production and pricing. The total remaining transportation commitment is \$0.3 million. For further information see Note 11 "Commitments and Contingencies" in the notes to the unaudited Interim Condensed Consolidated Financial Statements.

Gear is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on Gear's financial position or results of operations.

#### Non-GAAP and Other Financial Measures

Gear uses certain non-GAAP and other financial measures to analyze financial and operating performance. These specified financial measures include non-GAAP financial measures, non-GAAP ratios, total of segments measures, capital management measures and supplementary financial measures, and are not defined by IFRS and are therefore referred to as non-GAAP and other financial measures. Management believes that the non-GAAP and other financial measures used by the Company are key performance measures for Gear and provide investors with information that is commonly used by other oil and gas companies. These key performance indicators and benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. These non-GAAP and other financial measures should not be considered an alternative to or more meaningful than their most directly comparable financial measure presented in the financial statements, as an indication of the Company's performance. Descriptions of the non-GAAP and other financial measures used by the Company as well as reconciliations to the most directly comparable GAAP measure for the quarter ended March 31, 2023 and year ended December 31, 2022, where applicable, are provided below.

### *Funds from operations*

Funds from operations is a non-GAAP financial measure defined as cash flows from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Gear evaluates its financial performance primarily on funds from operations and considers it a key measure for management and investors as it demonstrates the Company's ability to generate the funds from operations necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB, if the Company chooses to do so.

Table 20 below reconciles cash flows from operating activities to funds from operations:

**Table 20**

(\$ thousands)	Three months ended		
	Mar 31, 2023	Mar 31, 2022	Dec 31, 2022
Cash flows from operating activities	14,933	15,340	18,565
Decommissioning liabilities settled <sup>(1)</sup>	441	912	1,417
Change in non-cash operating working capital	(2,362)	2,530	(1,306)
Funds from operations	13,012	18,782	18,676

(1) Decommissioning liabilities settled includes only expenditures made by Gear.

### *Funds from operations per BOE*

Funds from operations per boe is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by sales production for the period. Gear considers this a useful non-GAAP ratio for management and investors as it evaluates financial performance on a per boe level, which enables better comparison to other oil and gas companies in demonstrating its ability to generate the funds from operations necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB, if the Company chooses to do so.

### *Funds from operations per weighted average basic share*

Funds from operations per weighted average basic share is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by the weighted average basic share amount. Gear considers this non-GAAP ratio a useful measure for management and investors as it demonstrates its ability to generate the funds from operations, on a per weighted average basic share basis, necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB, if the Company chooses to do so.

### *Funds from operations per weighted average diluted share*

Funds from operations per weighted average diluted share is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by the weighted average diluted share amount. Gear considers this non-GAAP ratio a useful measure for management and investors as it demonstrates its ability to generate the funds from operations, on a per weighted average diluted share basis, necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB, if the Company chooses to do so.

### *Net (debt) surplus*

Net (debt) surplus is a capital management measure defined as debt less current working capital items (excluding debt, risk management contracts and decommissioning liabilities). Gear believes net (debt) surplus provides management and investors with a measure that is a key indicator of its leverage and strength of its balance sheet. Changes in net (debt) surplus are primarily a result of funds from operations, capital and abandonment expenditures, equity issuances, dividends paid and equity repurchases pursuant to the NCIB, if the Company chooses to do so.

Table 21 below reconciles debt to net debt:

**Table 21**

<b>Capital structure and liquidity</b>		
(\$ thousands)	Mar 31, 2023	Dec 31, 2022
Debt	(20,724)	(7,123)
Working capital surplus <sup>(1)</sup>	5,448	4,903
Net debt	(15,276)	(2,220)

(1) Excludes risk management contracts and decommissioning liabilities.

At March 31, 2023, Gear had a working capital surplus. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. After examining the economic factors that could cause liquidity risk, the Company believes it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months. There can be no assurance that future

borrowing base reviews will not result in a material reduction in the borrowing base, and that the necessary funds will be available to meet its obligations as they become due.

*Net debt to trailing twelve-month funds from operations*

Net debt to trailing twelve-month funds from operations is a non-GAAP ratio and is defined as net debt, as defined and reconciled to debt above, divided by the funds from operations, as defined and reconciled to cash flows from operating activities above, for the most recent trailing twelve-month period. Gear uses net debt to funds from operations to analyze financial and operating performance. Gear considers this a key measure for management and investors as it demonstrates the Company's ability to pay off its debt and take on new debt, if necessary, using the most recent trailing twelve-month results. When the Company is in a net surplus position, the Company's net debt to funds from operations is not applicable.

*Net debt to quarterly annualized funds from operations*

Net debt to quarterly annualized funds from operations is a non-GAAP ratio and is defined as net debt, as defined and reconciled to debt above, divided by the annualized funds from operations, as defined and reconciled to cash flows from operating activities above, for the most recently completed quarter. Gear uses net debt to quarterly annualized funds from operations to analyze financial and operating performance. Gear considers this a key measure for management and investors as it demonstrates the Company's ability to pay off its debt and take on new debt, if necessary, using the most recent quarter's results. When the Company is in a net surplus position, the Company's net debt to annualized funds from operations is not applicable.

*Debt adjusted shares*

Debt adjusted shares is a non-GAAP financial measure calculated as the weighted average shares minus the share equivalent when Gear has an average net surplus position, or plus the share equivalent when Gear has an average net debt position, as defined and reconciled to debt above, over the period. This assumes that net surplus is used to repurchase shares or net debt is extinguished with an issuance based on a certain share price; however, it should be noted that Gear's bank debt is not convertible into shares. The calculation of debt adjusted shares assumes that Gear issues shares for cash proceeds and such proceeds are used to repay the amounts outstanding under the Company's bank debt, or Gear has the ability to repurchase shares when in a net surplus position. Gear has used the ten-day volume weighted average share price ending at the end of the period as this share price better captures the actual price that could be theoretically used in the event that shares are hypothetically issued to extinguish outstanding debt or the price that the Company repurchases shares at. Gear considers debt adjusted shares a useful measure for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers.

Table 22 below reconciles weighted average basic shares to debt adjusted shares:

**Table 22**

(thousands, except per share amounts)	Mar 31, 2023	Three months ended	
		Mar 31, 2022	Dec 31, 2022
Weighted average basic shares	<b>260,693</b>	260,331	259,908
Average share price <sup>(1)</sup>	<b>0.97</b>	1.61	1.06
Average net (debt) surplus <sup>(2)</sup>	<b>(8,748)</b>	(11,268)	2,370
Share equivalent on average net (debt) surplus <sup>(3)</sup>	<b>9,019</b>	6,999	(2,236)
<b>Debt adjusted shares</b>	<b>269,712</b>	267,330	257,672

(1) Average share price obtained by a ten-day volume weighted average price ending at the end of the period.

(2) Average net (debt) surplus obtained by a simple average between opening and ending net (debt) surplus for the quarters ended.

(3) Share equivalent on average net (debt) surplus obtained by average net (debt) surplus divided by average share price.

*Funds from operations per debt adjusted share*

Funds from operations per debt adjusted share is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by debt adjusted shares, as defined and reconciled to weighted average basic shares above. Gear considers the non-GAAP ratio funds from operations per debt adjusted share a useful measure for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to generate the funds from operations necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB, if the Company chooses to do so.

*Cash flows from operating activities per debt adjusted share*

Cash flows from operating activities per debt adjusted share is a non-GAAP ratio calculated as cash flows from operating activities, as determined in accordance with IFRS, divided by debt adjusted shares, as defined and reconciled to weighted average basic shares above. Gear considers the non-GAAP ratio cash flows from operating activities per debt adjusted share a useful measure for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to generate the cash flows from operating activities necessary to fund its capital program, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB, if the Company chooses to do so.

#### *Production, boepd per debt adjusted thousand shares*

Production, boepd per debt adjusted thousand shares is a non-GAAP ratio calculated as production, boepd, divided by debt adjusted thousand shares, as defined and reconciled to weighted average basic shares above. Gear considers production, boepd per debt adjusted thousand shares a useful non-GAAP ratio for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate the Company's ability to produce oil and gas.

#### *Operating netback*

Operating netbacks are non-GAAP ratios calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Management considers operating netback to be a key measure of operating performance and profitability on a per unit basis of production. Management believes that netback provides investors with information that is commonly used by other oil and gas companies. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis.

#### **Critical Accounting Estimates**

Gear's financial and operating results incorporate certain estimates including:

- Estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been determined;
- Estimated capital expenditures on projects that are in progress;
- Estimated DD&A charges that are based on estimates of oil and gas reserves that Gear expects to recover in the future;
- Estimated future recoverable value of property, plant and equipment and any associated impairment charges or recoveries including those associated with the highly uncertain timing and impact of global energy markets transition from carbon-based sources to alternative energy;
- Estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices and foreign exchange rates;
- Estimated decommissioning liabilities that are dependent upon estimates of future costs and timing of expenditures;
- Estimated future utilization of tax pools; and
- Estimated employee share-based compensation costs.

Gear has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements refer to Note 4 "Management Judgments and Estimation Uncertainty" in the audited financial statements for the year ended December 31, 2022.

#### **Disclosure Controls and Procedures**

Gear's Chief Executive Officer and Chief Financial Officer are responsible for the establishment of disclosure controls and procedures ("DC&P"). DC&P, as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### **Internal Control over Financial Reporting**

Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at March 31, 2023, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There were no changes in Gear's ICFR during the three months ended March 31, 2023 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

#### **Changes in Accounting Policies**

In February 2021 the IASB issued amendments to IAS 1 Presentation of Financial Statements to require entities to disclose their material accounting policy information rather than their significant accounting policies. To support this amendment the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements. The amendments were adopted on January 1, 2023 and did not have a significant impact on the Company's interim condensed consolidated financial statements.

## Forward-looking Information and Statements

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: Gear's strategy for delivering per share growth and enhanced returns; expectations with respect to commodity pricing and supply and demand factors affecting commodity pricing; Gear's expectation that Canadian stream differentials will narrow as a result of the finalization of the TransMountain pipeline expansion; the expectation that Gear has positioned itself to capture higher oil prices for 2023 should they occur; Gear's revised 2023 guidance including expected first quarter and annual average production (including commodity weightings), expected royalty rate, expected operating and transportation costs, expected general and administrative costs, expected interest and other expense and expected capital and abandonment expenditures; Gear's expectations of a third party infrastructure turnaround in Central Alberta in the second quarter of 2023; expected forecasts of Gear's revised 2023 capital expenditure program; that the Killam wells appear capable of delivering volumes as expected; Gear's intended hedging strategy for 2023; Gear's expectations of being able to utilize its tax pools; Gear anticipating net debt to decline through the second quarter of 2023 as a result of improving commodity prices as well as significantly less capital investment due to spring break up; Gear's expectations to not repurchase any more shares for the duration of the NCIB program; Gear's estimate of its decommissioning liabilities; Gear's plans and expectations with respect to reducing methane and other emissions; Gear's expected abandonment and reclamation plans for 2023; the expectation of Gear's financial commitments under contractual commitments; Gear's expectation that current litigation will not have a material impact on Gear's financial position or results of operations; and the Company's belief that it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months.

The forward-looking information and statements contained in this report reflect several material factors and expectations and assumptions of Gear including, without limitation: that Gear will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Gear's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and funds from operations to fund its planned expenditures. Gear believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

To the extent that any forward-looking information contained herein may be considered future oriented financial information or a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: the impact of the Russian – Ukraine war on the global economy and commodity prices; the impacts of inflation and supply chain issues; the continued impact of the COVID-19 pandemic; changes in commodity prices; changes in the demand for or supply of Gear's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Gear or by third party operators of Gear's properties, increased debt levels or debt service requirements; inability to obtain debt or equity financing as necessary to fund operations, capital expenditures and any potential acquisitions; any ability for Gear to repay any of its indebtedness when due; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Gear's public documents including risk factors set out in Gear's most recent annual information form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The amount of future cash dividends paid by Gear, if any, will be subject to the discretion of the Board of Gear and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, funds from operations, fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements and debt levels, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Company, the dividend policy of the Company from time to time and, as a result, future cash dividends may not be paid or if paid could at a later date be reduced or suspended entirely.

The forward-looking information and statements contained in this report are made as of the date of this report, 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.



**Barrels of Oil Equivalent**

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of six Mcf to one Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

## QUARTERLY HISTORICAL REVIEW

	2023		2022			2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
(Cdn\$ thousands, except per share, share, and per boe amounts)								
<b>FINANCIAL</b>								
Petroleum and natural gas sales	33,675	39,278	44,840	57,635	45,524	39,961	35,189	29,651
Funds from operations <sup>(1)</sup>	13,012	18,676	22,544	33,770	18,782	17,938	15,955	12,222
Per weighted average basic share	0.05	0.07	0.09	0.13	0.07	0.07	0.06	0.05
Per weighted average diluted share	0.05	0.07	0.09	0.13	0.07	0.07	0.06	0.05
Cash flows from operating activities	14,933	18,565	26,196	29,668	15,340	17,421	9,601	14,967
Per weighted average basic share	0.06	0.07	0.10	0.11	0.06	0.07	0.04	0.06
Per weighted average diluted share	0.06	0.07	0.10	0.11	0.06	0.07	0.04	0.06
Net income (loss)	1,990	27,695	17,750	23,309	6,227	78,117	6,608	(730)
Per weighted average basic share	0.01	0.11	0.07	0.09	0.02	0.30	0.03	0.00
Per weighted average diluted share	0.01	0.10	0.07	0.09	0.02	0.29	0.03	0.00
Capital expenditures	17,992	18,899	14,872	8,091	8,687	4,936	10,256	5,809
Decommissioning liabilities settled - Gear	441	1,417	2,859	1,100	912	1,000	40	183
Decommissioning liabilities settled - Government <sup>(2)</sup>	37	532	433	250	-	566	904	511
Net (debt) surplus <sup>(1)</sup>	(15,276)	(2,220)	6,959	9,775	(6,706)	(15,830)	(27,860)	(33,418)
Dividends declared and paid	7,826	7,795	7,751	2,610	-	-	-	-
Dividends declared and paid per share	0.03	0.03	0.03	0.01	-	-	-	-
Weighted average shares outstanding, basic (thousands)	260,693	259,908	258,385	260,561	260,331	259,360	258,274	247,415
Weighted average shares outstanding, diluted (thousands)	263,381	263,774	263,585	268,353	269,016	265,460	263,719	247,415
Shares outstanding, end of period (thousands)	261,212	260,693	259,367	258,173	260,759	260,169	259,107	258,103
<b>OPERATING</b>								
Production								
Heavy oil (bbl/d)	2,734	2,772	2,546	2,686	3,043	3,282	3,325	3,207
Light and medium oil (bbl/d)	2,045	1,835	1,971	1,980	1,580	1,773	1,656	1,469
Natural gas liquids (bbl/d)	292	299	320	243	269	231	176	148
Natural gas (mcf/d)	5,287	5,091	5,339	5,205	4,855	4,637	4,215	3,694
Total (boe/d)	5,952	5,755	5,727	5,777	5,701	6,059	5,859	5,440
Average prices								
Heavy oil (\$/bbl)	56.80	69.72	89.32	116.74	95.91	73.27	67.86	62.14
Light and medium oil (\$/bbl)	91.68	103.62	109.95	133.18	110.32	88.99	80.49	74.72
Natural gas liquids (\$/bbl)	50.69	58.48	60.62	72.59	63.88	59.50	47.48	34.40
Natural gas (\$/mcf)	3.13	5.11	4.47	7.38	4.64	4.81	3.62	3.15
Selected financial results (\$/boe)								
Petroleum and natural gas sales	62.86	74.19	85.10	109.63	88.73	71.69	65.29	59.90
Royalties	(7.64)	(10.40)	(12.14)	(15.56)	(9.38)	(8.11)	(7.50)	(6.64)
Operating costs	(22.45)	(21.55)	(21.16)	(21.86)	(19.80)	(16.94)	(17.44)	(16.66)
Transportation costs	(4.25)	(4.03)	(3.67)	(3.56)	(3.43)	(3.00)	(2.04)	(2.06)
Operating netback <sup>(1)</sup>	28.52	38.21	48.13	68.65	56.12	43.64	38.31	34.54
Realized risk management gain (loss)	0.87	-	(1.94)	(0.96)	(14.11)	(8.20)	(5.13)	(5.55)
General and administrative	(4.36)	(2.62)	(3.20)	(2.94)	(4.83)	(2.55)	(2.70)	(2.66)
Interest and other	(0.74)	(0.32)	(0.20)	(0.51)	(0.57)	(0.71)	(0.88)	(1.64)

(1) Funds from operations, net (debt) surplus and operating netback are non-GAAP and other financial measures and additional information with respect to these measures can be found under the heading "Non-GAAP and Other Financial Measures". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.

(2) Decommissioning liabilities settled by the Federal Site Rehabilitation Program.

Quarter over quarter fluctuations in revenue are the result of both the amount of oil volumes sent to sale as well as Gear's received price. Volume fluctuations are the result of well productivity and timing of deliveries to the sales point. The amount of volumes delivered to sale can be influenced by a variety of factors some of which include weather, truck and rail car availability, as well as pipeline apportionments. Gear's received price is based on WTI less the WCS, Canadian Light Sweet and LSB oil differentials and is further decremented for the quality differential on its specific grade of oil. Net income is further impacted by royalty and operating expenses. Royalty expenses are directly linked to the price received by Gear and, on crown lands, the productivity of each producing well. Gear's royalty profile changes based on Gear's drilling program and on the results of its existing producing wells. Operating costs are heavily impacted by weather as well as the productivity of each well. Operating costs are typically higher in the winter months due to increased maintenance and energy costs.

## CORPORATE INFORMATION

### DIRECTORS

Don Gray  
Chairman  
Phoenix, Arizona

Harry English  
Independent Businessman  
Calgary, Alberta

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President & CEO, Gear Energy Ltd.  
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Independent Businessman  
Calgary, Alberta

Bindu Wyma  
Independent Businesswoman  
Calgary, Alberta

Greg Bay  
Managing Partner, Cypress Capital Management  
Vancouver, British Columbia

Wilson Wang  
Managing Partner, Twin Peaks Capital LLC  
Honolulu, Hawaii

### OFFICERS

Ingram Gillmore  
President & CEO

Bryan Dozzi  
Vice-President, Engineering

David Hwang  
Vice-President Finance & CFO

Jason Kaluski  
Vice-President, Operations

Dustin Ressler  
Vice-President, Exploration

Ted Brown  
Corporate Secretary

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